

**ORIGINAL**Decision No. 54703

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of MIRA LOMA WATER COMPANY, a )  
corporation, for an order authorizing )  
the issue of stock, for a certificate )  
of public convenience and necessity to )  
acquire and maintain a water system, )  
and for an order fixing water rates. )

Application No. 37512  
First Supplemental  
Application

OPINION AND ORDER

Mira Loma Water Company, a California corporation, filed the above-entitled application for authorization to issue 1,440 shares of its no par value capital stock on January 18, 1957.

By Application No. 37512, applicant requested (1) a certificate of public convenience and necessity to construct and operate a public utility water system, (2) to establish rates, (3) to issue stock, (4) to issue bonds, and (5) to deviate from the main extension rule for the first three years of operation.

By Decision No. 54104, dated November 19, 1956, in Application No. 37512, the Commission (a) granted applicant the certificate requested, (b) authorized it to establish rates, and (c) authorized it to issue stock in exchange for an existing water system, the stock to be issued on the basis of one share of stock for each \$25 in value of the depreciated assets. The Commission denied applicant authority to issue bonds as requested. Paragraph 8 of the order of Decision No. 54104 reads as follows:

"The authority herein granted will become effective when applicant, by supplemental application, has submitted to the

Commission for its consideration, a plan of financing its initial construction program which meets the requirements set forth in the preceding opinion and has received an order from the Commission approving such plan of financing."

The basis for the said ordering provision is set forth in the opinion as follows:

"The applicant requested that it be permitted to deviate from its main extension rule and issue \$103,000 in 6 per cent debenture bonds to install mains and services over the period of the next 3 years, and to finance the costs of improvements in the water systems. These bonds are to be issued to Heftler Construction Company, the subdivider and builder of homes in the proposed service area. The president of the latter company, who is also the president of the applicant company, testified that the Heftler Construction Company has a net worth of approximately \$3,000,000, and will purchase the bonds as the applicant requires finances, such purchase to be for cash at face value without discount or the payment by applicant of any brokerage fee.

"The fact that Heftler Construction Company has a net worth of approximately three million dollars is not material in connection with the matter now before the Commission. The construction company and the Mira Loma Water Company, applicant herein, are separate corporations and the Commission's inquiry in this proceeding must be directed into the adequacy of the proposed financing plans of the applicant. Its proposal to issue debentures as a means of financing the cost of installing mains, services and other facilities over the period of the next three

years will result in it having an unbalanced capital structure consisting predominantly of long-term debt. The inevitable result under such condition is that the estimated earnings of the company would not be sufficient to enable it to meet the interest and sinking fund requirements associated with its bond issue.

"It must be concluded, therefore, that applicant's proposal to acquire only a small portion of the system it seeks authorization to serve through issuance of its capital stock and to acquire the balance through the issue of long-term debt would be adverse to the public interest.

"The evidence is clear, however, that there is need for the service which applicant proposes to render. We will, therefore, attach as a condition to the granting of the requested certificate of public convenience and necessity the requirement that applicant, by supplemental application, request approval of an alternate form of financing its construction program so that, of its initial investment in properties which is estimated to total \$116,750, at least 60% thereof or approximately \$70,000 be financed through issue and sale of its common stock."

Applicant filed the herein supplemental application pursuant to the requirements of said ordering paragraph 8 of Decision No. 54104. It alleges therein that Hefstler Construction Company of California, a California corporation, has advanced for the use and benefit of applicant the sum of \$36,000 in the construction of water mains and service facilities for 180 home sites located in the service area of applicant, and applicant is indebted to said Hefstler Construction Company of California in the sum of \$36,000. Applicant proposes to issue 1,440 shares of its capital stock, of no par value, to said Hefstler Construction

Company of California in payment for and in consideration of the cancellation of said indebtedness at the rate of \$25 per share.

In explanation of its plan of financing the remaining cost of the water system, applicant states in Section V of its First Supplemental Application as follows:

"Applicant proposes to finance the remaining cost of its water system to be installed in the future, including water mains, tanks, reservoirs and other facilities, by resorting to Rule and Regulation No. 15 relating to Main Extensions and Refunds for the Cost Thereof."

This Commission intends that applicant file as its main extension rule that rule authorized by Decision No. 50580, dated September 28, 1954. Said rule provides that only the cost of mains, service pipelines and fire hydrants shall be advanced by the subdivider under the particular circumstances set out therein. Applicant is cautioned that the rendering of service at rates, charges or under conditions other than the rates, charges and conditions contained in its tariff schedules on file and in effect at the time is not lawful unless the authorization of this Commission to so deviate is first obtained. The authorization hereinafter granted with respect to the issuance of stock shall not be construed as authorization for applicant to deviate from the main extension rule it is to file under the authority contained in this Commission's Decision No. 54104 (supra).

The Commission has given consideration to this application and is of the opinion that the application should be granted; that a public hearing is not necessary; and that the money, property or labor to be procured or paid for through the

issue of stock herein authorized is reasonably required by the applicant for the purpose specified herein, and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

The action taken herein shall not be construed to be a finding of value of the property herein described.

IT IS HEREBY ORDERED:

(1) That Mira Lona Water Company, a corporation, may issue not to exceed 1,440 shares of its no par value capital stock to Heftler Construction Company of California, a California corporation, for the purpose specified in the foregoing opinion.

(2) That Mira Lona Water Company, a corporation, shall file with this Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made part of this order.

The effective date of this order shall be twenty days after the date hereof.

Dated at Los Angeles, California, this 21<sup>st</sup> day of MARCH, 1957.

[Signature]  
President.  
[Signature]  
[Signature]  
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Commissioners