

ORIGINAL

Decision No. 55054

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHERN CALIFORNIA WATER COMPANY
for authority to issue shares of
its stock.

Application No. 38946

O P I N I O N

Southern California Water Company has filed this application for authorization to issue and sell not to exceed 30,000 shares of common stock (\$150,000 par value) under the terms of a restricted stock option plan and to use the proceeds for the acquisition of property or the construction, completion, extension and improvement of its facilities.

According to the verified application, the company's directors and stockholders have adopted an Executive Employee Stock Option Plan as provided in Section 421 of the Internal Revenue Code. Under the provisions of the plan, the company will grant to ten executive employees the option to purchase shares of common stock up to an aggregate amount not to exceed 30,000 shares at a price of \$15.50 a share, or 105% of the market value at the time of the grant of such option, whichever is greater.

In each case, the option will run for a term of ten years from the grant of such option. The plan contains the customary provisions with respect to the nontransferability of the options, the termination in event of a termination of

employment, the adjustments upon changes in capitalization and the warranty that the person exercising such option does not then own stock possessing 10 per cent or more of the voting power of the corporation. According to the application, the plan is intended to encourage stock ownership by certain selected executive employees, the company being of the opinion that opportunity given them to acquire a direct proprietary interest in the success of the operations will inure to the benefit of the operations.

Presently, applicant has outstanding 635,216 shares of common stock so that the proposed issue constitutes approximately five per cent of the outstanding shares. A review of the information on file with the Commission shows the following with respect to the company's common stock:

Per Share Figures

	<u>Common Stock and Surplus</u>	<u>Earnings</u>	<u>Dividends</u>	<u>Market Price</u>	
1950	\$ 7.65	\$0.78	\$0.65	8	to 9-3/8
1951	8.66	.83	.65	7-3/4	to 8-1/2
1952	8.75	.76	.65	8-1/2	to 10-3/8
1953	9.05	.95	.65	9	to 10-3/8
1954	9.35	.94	.675	10-1/2	to 13-5/8
1955	9.99	1.10	.75	13	to 15-1/2
1956	10.35	1.15	.7875	13-5/8	to 14-5/8

The stock has been reported traded over-the-counter recently at 14-1/4 bid, 15-1/8 asked.

The offering of common shares to key employees under a restricted stock option plan is not uncommon in corporation financing. The present plan appears to follow along conventional lines and if the directors of the utility, in the exercise of their managerial judgment, have concluded to adopt an option plan and if the present shareholders have approved the same, there appears to be no reason for the Commission to withhold its approval. Information filed with the Commission indicates the company will have need for equity funds from time to time.

In entering an order granting this application, however, we place applicant on notice that we will not regard the dividends it pays on its common stock in determining the rate of return which it should be allowed to earn nor the price at which it sells its shares as measuring the value of such shares or of its properties. The authorization herein granted is only for the issue of stock and is not to be construed as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable

to operating expenses or to income, and that the application should be granted; therefore,

IT IS HEREBY ORDERED as follows:

1. Southern California Water Company may issue and sell not to exceed 30,000 shares of its common stock under and pursuant to the terms of its Executive Employee Stock Option Plan, a copy of which is on file in this proceeding as Exhibit 1.
2. Southern California Water Company shall use the proceeds from the sale of such shares for the acquisition of property or the construction, completion, extension and improvement of its facilities or for the payment of indebtedness.
3. Southern California Water Company shall file reports with the Commission as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.
4. This order will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 14th day of JUNE 1957.

E. J. [Signature]
 President

[Signature]

[Signature]

[Signature]

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 Commissioners