

ORIGINAL

Decision No. 57004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

AZUSA VALLEY WATER COMPANY,
a corporation,

For Authority to Issue Stock and
Stock Certificates or Other
Evidence of Indebtedness.

Application No. 37474
(First Supplemental)

Gibson, Dunn & Crutcher, by Richard
L. Wells, and Ira R. Celvert, for
applicant; James Shields, for
Commission staff.

FIRST SUPPLEMENTAL OPINION

By Decision No. 53970, dated October 23, 1956, as amended, the Commission authorized Azusa Valley Water Company to issue not to exceed \$300,000 of Class A, 5% Preferred Stock to finance capital costs and not to exceed \$1,000,000 of Class B, 3% Preferred Stock in exchange, at dollar for dollar, for unrefunded amounts of subdivider advance contracts as listed in Exhibits Nos. 7 and 10 filed in the above-entitled matter, provided that said contracts first be adjusted to actual cost bases. The contracts had been entered into under both the old 35% refund rule during a period running from March 29, 1950 to November 4, 1954, and under the present 22% refund rule during a period running from December 10, 1954 to June 21, 1956. The Commission's order, as amended, provided that such stock be issued on or before June 30, 1958.

In a supplemental petition filed on May 15, 1958, the company reports that it has issued \$45,200 par value of the Class A, 5% Preferred Stock and \$496,100 of the Class B, 3% Preferred Stock. The company desires to proceed with the issue of the remainder of the authorized stock and it requests that the time within which it might do so be extended to and including June 30, 1959. It also requests authorization to deviate from its presently filed subdivider advance rule and to issue \$125,075 par value of its Class B, 3% Preferred Stock in exchange, at dollar for dollar, for unrefunded amounts of twenty additional subdividers' advance contracts made since October 10, 1956, as set forth in Exhibit A attached to its supplemental application. The \$125,075 of stock would be in addition to that previously authorized.

A public hearing on the supplemental application was held before Examiner Coleman in Los Angeles on June 6, 1958, at which time the matter was taken under submission. No protests were entered.

The following tabulation indicates the extent and growth of applicant's investment and business from the inception of its operations up to December 31, 1957:

	<u>Operating Revenues</u>	<u>Plant Dec. 31</u>	<u>Meters Dec. 31</u>
1952 (Oct. 6 - Dec. 31)	\$ 12,872	\$ 780,107	1,825
1953	113,760	1,146,194	3,319
1954	199,523	1,817,957	6,216
1955	356,858	2,424,185	9,612
1956	470,937	2,827,146	11,084
1957	519,888	3,227,443	12,032

For the first five months of 1958 applicant reported gross revenues of \$150,160 and net loss of \$12,878, after making allowance of \$28,717 for depreciation. It was stated that the results of operations during the first five months were not indicative of the twelve months' business. During this five months' period, however, applicant increased its investment in fixed capital to \$3,614,234.

Exhibit No. 27 indicates, in general, that as of May 31, 1958, applicant had obtained capital funds from the following sources:

	<u>Amount</u>	<u>Per Cent of Total</u>
Debt -		
Mortgage payable	\$ 992,500	
Advances for construction	<u>1,002,827</u>	
Total debt	\$1,995,327	60%
Preferred stock -		
Class A	45,200	
Class B	<u>496,100</u>	
Total preferred stock	541,300	16
Common stock and surplus	<u>775,122</u>	<u>24</u>
Total	<u><u>\$3,311,749</u></u>	<u><u>100%</u></u>

Applicant's financial reports and exhibits show its income and refunds of advances as follows:

	<u>Net Income before Depreciation</u>	<u>Depre- ciation</u>	<u>Net Income</u>	<u>Refunds</u>	<u>Ratio - Refunds to Gross Rev.</u>
1952	\$ (672)	\$ 3,174	\$ (3,846)	\$ 2,141	17%
1953	27,823	16,214	11,609	19,392	18
1954	42,239	25,044	17,195	46,423	25
1955	98,666	38,829	59,837	94,540	28
1956	113,743	49,343	64,400	125,000	27
1957	120,803	68,922	51,881	90,235	17

It is estimated by applicant that refunds based on the 1958 revenues will rise to \$120,000, despite the conversion into preferred stock of \$496,100 of advances up to the end of May.

Applicant desires to continue with the sale of its shares of stock and to make the additional offerings, as requested, in order to improve its credit position and to reduce its cash outlays for refunds and to make such amounts available for other needed purposes. Information before the Commission indicates that applicant has need for funds for plant expansion, that additional working capital is necessary during the first part of the year when net operating losses are reported, and that as of May 31, 1958, applicant was obligated, on current account, in the amount of \$92,306.82 for refund payments. The record further shows that because of the high incidence of refundable advances applicant's borrowing capacity is limited, as the amounts of the advances are excluded from the bondable base, and that presently it can qualify, under its mortgage indenture, for additional borrowings of only \$60,000. Moreover, with no dividend record, it would appear that common stock financing would not be feasible.

With respect to the Class A, 5% shares, applicant does not intend to make a public offering. It reports that inquiries have been received from residents of Azusa regarding the purchase of such shares and it is of the opinion that it can make some sales if the present stock permit is extended. It appears that applicant merely desires to be in a position to sell its shares should the opportunity arise.

As to the Class B, 3% shares, applicant reports, upon the basis of its discussions and experience in disposing of them, that there is interest on the part of subdividers to convert their holdings into such shares, at dollar for dollar, but that such conversions cannot be effected if the amounts of the contracts are discounted to reflect a present worth calculation. Applicant is of the opinion that any conversion on less than a dollar-for-dollar basis, if it would be effected, would require such a higher dividend rate as to be more costly.

From a review of the application and of the testimony and exhibits filed in this proceeding, it appears that applicant does not have adequate internal resources to meet its obligations under its refund agreements and at the same time to maintain its credit, to attract outside capital and to extend and improve its service and facilities. The refinancing it now proposes, if carried to completion, should develop additional internally generated funds for use in maintaining plant and operating standards and, at the same time, should improve applicant's financial and credit position by broadening the base of permanent low cost equity capital in its structure, thereby facilitating debt financing should that be required. Accordingly, we are of the opinion that the proposal of applicant is not adverse to the public interest and we will enter an order granting applicant's requests.

The authorization herein granted is for the purpose of this proceeding only, under the circumstances surrounding this particular transaction and this utility, and is not to be taken

as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

SECOND SUPPLEMENTAL ORDER

A further public hearing having been held in the above-entitled matter and the Commission being of the opinion 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 and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. The time within which Azusa Valley Water Company may issue the shares of Class A, 5% Preferred Stock and Class B, 3% Preferred Stock authorized by Decision No. 53970, dated October 23, 1956, as amended, hereby is extended to and including June 30, 1959.

2. Azusa Valley Water Company may issue not to exceed \$125,075 par value of its Class B, 3% Preferred Stock, in addition to that authorized by Decision No. 53970, dated October 23, 1956, as amended, at not less than par, on or before June 30, 1959, in exchange, at dollar for dollar, for the presently unrefunded amounts of subdivider advance contracts listed in Exhibit A to applicant's supplemental application filed on May 15, 1958, provided:

- a. That applicant first adjust said contract amounts to actual costs;
- b. That the offer to exchange stock for advances be made uniformly to all contract holders listed in said Exhibit A; and
- c. That applicant, in offering its stock in exchange for advances, notify the contract holders that the option of acceptance rests with them.

3. Azusa Valley Water Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. This second supplemental order will become effective on the date hereof.

Dated at San Francisco, California, this 22nd day of July, 1958.

E. L. Fox
President
W. E. Marshall
Ray W. Wabersner
Theodore Jensen
Commissioners

Commissioner Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.