

Decision No. 57483

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of

TAMARISK WATER COMPANY, a  
California Corporation, for  
authority to issue and sell  
\$25,000 of its 6% Bonds.

Application No. 40414

Arthur D. Guy, Jr., and  
Sol Lesser, for applicant.

O P I N I O N

Tamarisk Water Company, a corporation, has filed this application for authorization to issue \$25,000 of debenture bonds and 500 shares of its capital stock of the par value of \$100 each.

The application was filed on September 8, 1958. A public hearing was held before Examiner Coleman in Los Angeles on September 30, 1958, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant was organized under the laws of the State of California, on or about April 9, 1956, with an authorized capital stock of 10,000 shares of the par value of \$100 each. By Decision No. 54281, dated December 18, 1956, in Application No. 38075, it was granted a certificate of public convenience and necessity to operate a public utility water system in the vicinity of Cathedral City, Riverside County, and was authorized to issue 1,000 shares of its stock, at par, to finance its construction costs.

The record shows that applicant has issued its stock as authorized, that it commenced operations in the latter part of 1957, and that presently it serves approximately 60 customers. Its results of operation are indicated in the following tabulation:

	<u>1957</u>	<u>1958</u> <u>Jan. 1-Sept. 30</u>
Revenue from sale of water	\$ 1,985.35	\$ 7,763.00
Operating expenses, excluding depreciation	<u>2,649.70</u>	<u>3,953.95</u>
Balance before depreciation	(664.35)	3,809.05
Depreciation	<u>340.00</u>	<u>2,620.00</u>
Net income from operations	<u><u>\$(1,004.35)</u></u>	<u><u>\$ 1,189.05</u></u>

A summary statement showing applicant's recorded investment in plant and other assets, its liabilities and its net worth, as of June 30, 1958, is as follows:

Assets

Fixed assets -		
Utility plant	\$111,078.77	
Construction work in prog.	<u>59,675.10</u>	
	170,753.87	
Less - Depreciation reserve	<u>2,960.00</u>	
Net fixed assets		\$167,793.87
Current assets -		
Cash	3,343.65	
Accounts receivable	<u>1,171.79</u>	
Total current assets		<u>5,015.44</u>
Total		<u>\$172,809.31</u>

Liabilities and Net Worth

Current liabilities -		
Accounts payable	\$ 17,043.41	
Notes payable	10,000.00	
Customers' deposits	<u>900.00</u>	
Total current liabilities		\$ 27,943.41
Advances for construction		45,056.20
Net worth -		
Capital stock	100,000.00	
Surplus	<u>(190.30)</u>	
Total net worth		<u>99,809.70</u>
Total		<u>\$172,809.31</u>

According to the testimony, applicant has obtained the use of a well (sometimes referred to as Well B) which formerly was owned by Wontam Mutual Water Company, but is now owned by Tamarisk Country Club, and has installed a pipeline from the well to its water system and, in addition, has developed other sources of supply. It has filed, as Exhibit No. 2, a copy of its agreement with Tamarisk Country Club providing, among other things, for the use of the well and a 10,000-gallon tank.

Applicant now desires to refinance \$25,000 of its accounts and notes payable, now past due, which represent temporary borrowings incurred in meeting construction costs which are not represented by subdividers' advances. To accomplish this objective, it proposes to offer to its shareholders, pro rata, \$25,000 of debenture bonds, which will be unsecured, will bear interest at the rate of 6% per annum, will mature September 1, 1968, and will be convertible at the option of the holders after December 31, 1961, if not redeemed and paid, into shares of capital stock at the rate of two shares for each \$100 debenture bond. Any debenture bonds not taken by shareholders will be offered to the general public.

From a review of the record, it appears that the shareholders, while willing to invest \$100,000 in the initial stock issue, do not desire additional share holdings but are agreeable to purchase the debenture bonds. The testimony shows that 80 per cent of the shareholders have indicated their approval of the proposed financing program and that no objection has been registered by the remainder. Applicant's president is confident that the entire \$25,000 issue will be sold.

Should conversion of the debentures ultimately be effected, and stock issued, as proposed, there would be dilution in the book value per share. However, the total net capital, and the investment in plant, as reflected by the books, would be unchanged and it is clear the ratepayers would not be adversely affected.

Upon reviewing the record, it appears to us that applicant has need for funds to meet its current obligations, that it is desirable for such obligations to be converted into more permanent capital, and that the earnings from operations and the depreciation accruals should be sufficient to service the debt. If applicant's shareholders, who will be affected, are satisfied with the financing arrangements, and the record indicates they are, we see no reason for withholding an affirmative order in this proceeding.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the approval herein given is not to be construed as a finding of value of applicant's stock or properties nor 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

A public hearing having been held on the above-entitled application and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the securities 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. Tamarisk Water Company, on and after the effective date hereof and on or before March 31, 1959, may issue and sell not to exceed \$25,000 of its 6% debenture bonds at not less than the principal amount thereof for the purpose of paying a like amount of outstanding notes and accounts payable.

2. Tamarisk Water Company, from time to time, may issue not to exceed 500 shares of its capital stock in exchange for such debenture bonds which may be surrendered to it for conversion upon the basis set forth in this application.

3. Tamarisk Water Company shall file a report, or reports, of the issue of said debenture bonds as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when Tamarisk Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$25.

Dated at San Francisco, California, this 21st day of October, 1958.

E. Lynn Fox  
President

Paul J. [unclear]

[unclear]

Theodore J. [unclear]  
Commissioners

