

ORIGINAL

Decision No. 57548

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of PALM SPRINGS WATER COMPANY,
a corporation, for authority to
issue preferred stock.

Application No. 40399

Wyman C. Knapp, for applicant;
Donald B. Steger, for the staff
of the Commission.

O P I N I O N

Palm Springs Water Company has filed this application for authorization to issue \$125,000 par value of its Class B, 3% preferred stock in exchange for outstanding refund contracts.

The application was filed on August 29, 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.

Applicant is engaged in the business of distributing water to approximately 5,000 consumers in and about Palm Springs, California. A condensed statement of its recorded investment in fixed and other assets, and of its liabilities and net worth, as of June 30, 1958, prepared from Appendix A attached to the application, is as follows:

Assets

Fixed assets, less depreciation reserve	\$1,794,116
Other investments	26,505
Current and accrued assets	96,894
Deferred debits	10,973
Total	<u>\$1,988,488</u>

Liabilities and Net Worth

Long-term debt	\$ 85,340
Current liabilities	266,612
Advances for construction	447,182
Deferred credits	3,028
Contributions in aid of construction	83,814
Preferred stock	48,750
Common stock and surplus	1,053,762
Total	<u>\$1,988,488</u>

The foregoing balance sheet indicates that applicant has financed its plant costs, in part, with subdividers' advances. Since the date of the balance sheet, the outstanding amount has increased and, as of September 30, 1958, according to Exhibit No. 6, aggregated \$458,636.81. The following tabulation shows the total amounts advanced under the presently outstanding contracts, the amounts refunded and the remaining balances, segregated as to types of refund contracts:

<u>Method</u>	<u>Advanced</u>	<u>Refunded</u>	<u>Balance</u>
65% proportionate cost	\$326,341.38	\$42,563.06	\$283,778.32
22% gross revenue	139,537.75	1,818.24	137,719.51
35% gross revenue	60,025.72	23,810.55	36,215.17
Miscellaneous	923.81	-	923.81
Total	<u>\$526,828.66</u>	<u>\$68,191.85</u>	<u>\$458,636.81</u>

The company now is undertaking to ascertain if it can make arrangements to refund its contracts with preferred stock. It has no commitments with subdividers for such an exchange and reports that it does not know the extent to which the subdividers would accept the exchange offer. For this reason it seeks at this time authorization to issue only \$125,000 of stock although its total contracts are in a much larger amount.

The following tabulation, which was prepared from Exhibit No. 5, shows the company's net profit after depreciation, the amount of refunds of subdividers' contracts, and the outstanding balances for each of the years 1949 to 1957 inclusive, and as estimated for the years 1958 to 1962 inclusive:

	<u>Net Profit After Depr.</u>	<u>Refunds During Year</u>	<u>Advances End of Year</u>
1949	\$ 64,149	\$12,034	\$128,878
1950	75,248	6,479	115,551
1951	63,411	9,346	112,502
1952	65,515	10,499	122,619
1953	73,581	11,426	122,935
1954	87,071	12,290	115,738
1955	101,537	13,777	191,734
1956	125,144	15,662	322,708
1957	108,624	28,968	402,426
1958	117,131	37,468	505,958
1959	137,181	45,468	611,990
1960	152,963	54,268	716,722
1961	166,688	64,768	818,954
1962	187,247	74,968	919,990

In embarking on the present program, the company reports that not only will it have need for additional cash in the future to meet estimated refund payments, but that it will be called upon to spend substantial sums for construction work in order to provide adequate storage and other facilities to meet the

anticipated growth in this area. It estimates for the years 1959 through 1962, it must expend from \$700,000 to \$750,000 to construct a five-million gallon reservoir, to install approximately four miles of transmission mains, and to develop and to equip additional wells, and that of this total amount approximately \$347,000 will be spent during the coming year. The record shows that the company is entering upon negotiations with lending institutions in an endeavor to borrow money to meet its capital requirements.

Under the terms of the Public Utilities Code, the Commission, in passing on a request to issue stock, is required, among other things, to make a finding that, in its opinion, the money, property or labor to be procured or paid for by the proposed issue of stock is reasonably required by the issuing corporation. The testimony and exhibits in the present proceeding indicate that in the past the company has experienced no difficulty in making refunds on its contracts and that its operations have generated sufficient cash to take care of its operating costs, to meet the refund obligations, and to pay interest and dividends, although external funds were necessary to meet part of the cost of additional plant facilities. The application shows that the company has met its growth requirements primarily with common stock and retained earnings and that, as of June 30, 1958, it had only a small amount of long-term debt outstanding, as compared with its net investment in its productive assets.

The showing made by applicant does not warrant the conclusion that its financial condition requires the replacement of its unsecured debt with permanent capital at this time and we are of the opinion, therefore, that we cannot make the required finding with respect to the reasonableness of the proposed issue.

On the basis of the record as developed in this particular proceeding, we will enter our order denying this application.

O R D E R

A public hearing having been held and the Commission having considered the matter and being of the opinion that the application should be denied for the reason set forth in the preceding opinion, therefore,

IT IS HEREBY ORDERED that Application No. 40399 of Palm Springs Water Company be, and it hereby is, denied.

The effective date of this order shall be 20 days after the date hereof.

Dated at San Francisco, California, this 3rd day of November, 1958.

C. Fox
President
W. Mitchell
Paul J. Winter
W. J. ...
Theodore J. ...
Commissioners