

ORIGINAL

Decision No. 59314

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
THE CAMPBELL WATER COMPANY,

a California corporation, for an order authorizing it (a) to issue and distribute a common share dividend to its common shareholders; (b) to issue and sell 6,250 common shares, \$25 par value, at a price of not less than \$32 per share, in cash; and (c) to apply the proceeds of sale of said common shares to the financing of additions and betterments.

Application No. 41633

O P I N I O N

This is an application for an order of the Commission authorizing The Campbell Water Company to issue 5,500 shares of its common stock of the par value of \$25 each and of the aggregate par value of \$137,500. Of the shares proposed to be issued 3,000 will be issued at par to pay a stock dividend and 2,500 will be issued at a price of not less than \$32 per share in order to finance, in part, the cost of plant additions and improvements.

Applicant is engaged as a public utility in the distribution of water in its service area in Campbell, County of Santa Clara, and adjacent territory. Figures indicating the extent of its operations during the years 1957 and 1958 and the nine months ended September 30, 1959, are as follows:

	<u>1957</u>	<u>1958</u>	<u>(9 Mos.)</u> <u>1959</u>
Operating revenues	\$110,413	\$129,114	\$124,852
Net income	\$ 17,765	\$ 17,443	\$ 26,442
No. of consumers	2,224	2,565	3,004

In Exhibit A, attached to the application, there is presented a balance sheet of applicant as of September 30, 1959. A summarization of said balance sheet is as follows:

Assets

Current assets -		
Cash	\$ 86,821.10	
Accounts receivable	11,272.53	
Other current assets	<u>4,794.33</u>	
Total current assets		\$102,887.96
Utility plant and equipment, less reserves		710,614.66
Other assets		<u>5,215.83</u>
Total assets		<u>\$818,718.45</u>

Liabilities and Capital

Current liabilities		\$ 18,805.16
Mortgage notes payable		208,000.00
Advances for construction		337,976.34
Donations in aid of construction		10,119.65
Capital -		
Preferred capital stock	\$ 50,000.00	
Common capital stock	<u>75,000.00</u>	
Subtotal	<u>125,000.00</u>	
Earned surplus	<u>118,817.30</u>	
Total capital		<u>243,817.30</u>
Total liabilities and capital		<u>\$818,718.45</u>

Information contained in reports which applicant has filed with the Commission shows that during the period January 1, 1958 to September 30, 1959, its investment in utility plant increased from \$598,670.66 to \$936,291.27, an increase of

\$337,620.61, or 56%, and that this increase was financed primarily through the use of debt capital and subdividers' advances for construction.

Applicant estimates that during the next three years its capital expenditures in connection with the construction, completion, extension and improvement of its facilities, other than those which may be financed with advances for construction, will total \$200,000 and will include expenditures of \$80,000 in 1960; \$70,000 in 1961; and \$50,000 in 1962.

It is of the opinion that in order to maintain a balanced capital structure it should finance such capital improvements through the issue of shares of its common stock. It proposes to issue and sell \$62,500 par value of common stock in 1960; \$55,000 par value of common stock, 13 months thereafter in 1961; and \$38,750 par value of common stock, 13 months thereafter in 1962. Applicant's current application is limited to a request for authority to issue and sell 2,500 shares of its common stock on or before December 31, 1960. By supplemental application, or applications, it will request authority to issue and sell 2,200 shares of common stock in 1961 and 1,550 shares of common stock in 1962.

Before proceeding with the sale of additional shares of common stock, applicant desires to reduce the book value of its presently outstanding shares by the issuance of a stock dividend. Its Board of Directors has declared a stock dividend, payable to common shareholders of record as of October 31, 1959, equal to one

additional share at its par value for each share then held. Such a dividend will have the effect of reducing the September 30, 1959 book value of each share of common stock from \$64.60 to \$32.30. Thereafter the company proposes to issue and sell the 2,500 shares of common stock in 1960 at a price per share of not less than \$32.

Applicant's capital structure as of September 30, 1959, and on a pro forma basis giving effect to the stock dividend and to the issue and sale of 2,500 shares of common stock at a price of \$32 per share, is as follows:

	<u>Sept. 30, 1959</u>	<u>Pro Forma</u>
Long term-debt	46%	39%
Preferred capital stock	11	9
Common stock equity	<u>43</u>	<u>52</u>
Total	<u>100%</u>	<u>100%</u>

If the advances for construction outstanding on September 30, 1959 are classified as a part of applicant's long-term debt, the capitalization percentages would be as follows:

	<u>Sept. 30, 1959</u>	<u>Pro Forma</u>
Long-term debt -		
Mortgage notes	26%	24%
Advances	43	39
Total long-term debt	<u>69</u>	<u>63</u>
Preferred capital stock	6	6
Common stock equity	<u>25</u>	<u>31</u>
Total	<u>100%</u>	<u>100%</u>

A review of applicant's records and reports shows that its investment in plant and business has been increasing rapidly and it estimates that the growth pattern will continue in the immediate future. It appears from its balance sheet that applicant has financed its recent growth with mortgage notes, refundable advances in aid of construction and earnings from operations and that it has had earnings in excess of the proposed stock dividend which have been invested in the properties and business. It further appears that the issuance of common stock at this time will represent an initial step in restoring applicant's capital ratios to a more balanced condition. An order, therefore, properly can be entered authorizing the issue of 3,000 shares of common stock. In issuing these 3,000 shares of common stock, applicant will transfer \$75,000 from its surplus account to its capital account. The transfer of this amount will result in a permanent retention of earnings of that amount in the business. It will tend to minimize dilution of the interest of the present shareholders upon the issue of the additional shares and it will also provide a broader base of permanent equity in applicant's capital structure.

Upon a full review of this matter, we are of the opinion that an order should be entered granting applicant's requests.

The authority granted herein is for the issuance of securities and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining 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 application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the shares of common 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;  
NOW THEREFORE,

IT IS HEREBY ORDERED as follows:

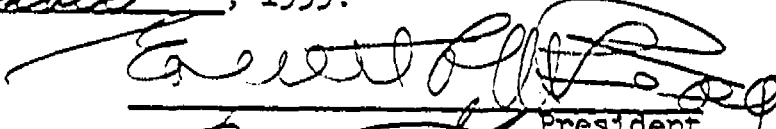
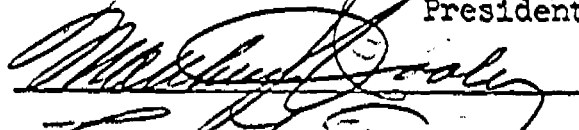
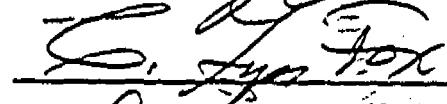
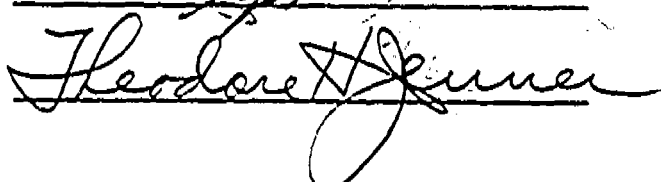
1. The Campbell Water Company, on or before June 30, 1960, may issue not to exceed 3,000 shares of its common stock, at par, for the purpose of reimbursing its treasury for moneys expended from income for additions to its properties and thereafter may distribute such shares as a stock dividend to the holders of its presently outstanding shares of common stock.

2. The Campbell Water Company, on or before December 31, 1960, may issue and sell not to exceed 2,500 shares of common stock, at not less than \$32 per share, for the purpose of financing the cost of plant additions and improvements as set forth in this application.

3. The Campbell 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. The authority granted to issue and sell not to exceed 2,500 shares of common stock as authorized by Ordering Paragraph 2, herein, shall become effective when applicant has filed with the Commission a certified copy of an amendment to its Articles of Incorporation increasing the number of authorized common shares to not less than 8,500 shares of the par value of \$25 each. In all other respects the authority herein granted shall become effective 20 days after the date hereof.

Dated at San Francisco, California, this  
1st day of December, 1959.

  
President  
  
  
  
Commissioners