

**ORIGINAL**

Decision No. 59624

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
LA GRANADA WATER COMPANY, a corpora-	)	
tion, for an Order Authorizing the	)	Application No. 41450
company to Borrow \$150,000 and to	)	
Issue Preferred Stock.	)	

Richard H. Millen and Charles W. Drake,  
 for applicant.  
Cyril M. Saroyan, for the Commission staff.

O P I N I O N

In this application, filed on August 28, 1959, La Granada Water Company asks that the Commission authorize it to borrow \$150,000 and, as a condition precedent thereto, authorize it to issue 3 per cent noncumulative preferred stock in the amount of \$139,720.53 in a dollar-for-dollar exchange for amounts refundable to affiliated interests under contracts pertaining to advances in aid of construction.

Public hearing on this application was held before Examiner James F. Haley at Los Angeles on November 23 and 24, 1959. The matter was submitted subject to the late filing of an exhibit giving information as to the stockholders of corporations affiliated with applicant. This exhibit was filed with the Commission on November 30, 1959.

Financial Needs of Applicant

Applicant states that it has urgent need of the \$150,000 proposed to be borrowed; that applicant would use \$33,352 to pay amounts owned to affiliates and would use \$30,358 to pay suppliers;

and that after payment of \$5,500 expenses associated with the loan, there would remain \$80,790 which it would expend in installing an 18 inch main to replace its existing 12-inch main. An engineer testifying for applicant stated that the larger main is needed to provide adequate capacity to meet existing and presently foreseeable future peak load requirements.

Proposed Method of Financing

Applicant proposes to borrow \$150,000 at an interest rate of 6 per cent per annum. The loan would be for a 20-year period with annual sinking fund payments of \$3,000. The security provided would be a first lien on all fixed property of the applicant as well as a pledge of stock by the stockholders of Arlington Utility Company, an affiliated sewer company.

Applicant states that as a condition precedent to the loan imposed by the proposed lender, Pacific Mutual Life Insurance Company, applicant must issue 3 per cent noncumulative preferred stock to affiliated companies in exchange for the cancellation of revenue refund contracts amounting to \$139,720.53. An officer of the applicant stated that the lender imposed this condition in order to limit the amount of money to be paid by La Granada Water Company to affiliates during the life of the loan. The officer stated that applicant had approached several lending agencies but had been unable to obtain a loan commitment from other than the proposed lender. Another witness for the applicant testified that the effect of the conversion required by the lender would be to reduce the revenue requirements of the utility over a 21-year period.

Staff Testimony

A staff accountant presented a financial report relating to the applicant. This witness recommended granting of the application as a means of meeting the financial requirements of the

utility. In addition a staff engineer testified that the conversion of the contracts to preferred stock would have the effect of increasing the rate base and revenue requirements of applicant. This witness also testified that, while the proposed 18-inch main will be required for expansion and future growth, it is not necessary for serving applicant's present customers.

Water Main Extension Rule

The Commission in Decision No. 50580 in Case No. 5501, dated September 28, 1954, established a uniform water main extension rule for all California water utilities under its jurisdiction. Section A-12 of this rule provides that:

"Contracts entered into under the percentage of revenue method of refund under this extension rule may be terminated any time after two years following completion of the extension upon mutual agreement of the parties by payment to the individual, individuals or subdivider of the present worth of an annuity of equal annual payments of the unpaid balance of the advance calculated at 6% interest as of the termination date of the contract."

The present worths of the contracts, as contemplated under Section A-12 of the rule as quoted above, total considerably less than the amounts subject to refund over the lives of the contracts. Further, there is no assurance that the total of the amounts subject to refund will be paid out by the utility since the refunds, being set according to the rule at 22 per cent of revenues, vary with revenues. Applicant, in fact, testified that under present rates three of its contracts with affiliates would not pay out by their expiration dates.

Findings and Conclusions

By requesting authority to convert main extension contracts to preferred stock on a dollar-for-dollar basis, applicant is, in essence, seeking authority to deviate from its filed main extension rule. By confining its conversion request to contracts

held by affiliates, applicant is requesting deviation from that rule only insofar as it pertains to its affiliates. This presents an aspect of discrimination, since the application does not propose the offering of the same conversion opportunities to non-affiliated interests. Amounts refundable by applicant under main extension contracts with non-affiliates total approximately \$51,000.

In denying Application No. 41126 filed by another water utility seeking authority to convert revenue refund contracts to stock, the Commission held in part, in Decision No. 59356, dated December 8, 1959, as follows:

"A conversion on the basis sought is contrary to Section A-12 of the utility's filed main extension rule which provide that revenue refund contracts may be terminated on the basis of the present worth of such contracts. We find that the conversion, as proposed on the so-called 'dollar-for-dollar' basis is adverse to the public interest and is, also, adverse to the lawful interest of the customers of the utility in its effect on future water rates."

Authorization is sought herein to convert the contracts to 3 per cent preferred stock, whereas in Application No. 41126, authority was sought to convert to common stock. This is not a fundamental difference. The conversion to preferred stock on a dollar-for-dollar basis as proposed herein is equally contrary to Section A-12 of the applicant's filed main extension rule.

The Commission is of the opinion that the borrowing proposed herein is not, in itself, necessarily adverse to the public interest. However, the Commission finds that a granting of the condition precedent thereto, namely, the dollar-for-dollar conversion of refund contracts to preferred stock, would cause an increase in applicant's revenue requirements and would, therefore, be adverse to the public interest in its effect on future water rates.

The Commission concludes that the application should be denied.

ORDER

Public hearing having been held herein, the matter having been submitted for decision, the Commission now being fully advised and basing its order upon the findings and conclusions contained in the foregoing opinion, therefore,

IT IS HEREBY ORDERED that the application is denied.

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

Dated at San Francisco, California, this 27th day of February, 1960.

[Signature]  
President

[Signature]

[Signature]

[Signature]

Theodore Jenner  
Commissioners