

ORIGINAL

Decision No. 59777

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
THE CAMPBELL WATER COMPANY, a
corporation, for authority to issue
preferred shares.

Application No. 41154
and First Amendment

Warren A. Palmer, Robert A. Keller and Orrick,
Dahlquist, Herrington & Sutcliffe, for
applicant.
W. R. Roche, E. F. Catey and L. L. Thormod, for
the Commission staff.

O P I N I O N

Applicant's Request

The Campbell Water Company filed this application on May 21, 1959, and filed an amendment thereto on August 14, 1959. The application as amended requests authorization to issue 3 percent preferred stock in dollar-for-dollar exchange for unrefunded amounts of subdivider advance contracts. Public hearing on this application was held before Examiner James F. Haley at San Francisco on November 5 and 6, 1959.

Financial Needs of Applicant

Applicant states that it is faced with a heavy cash outlay for refunds under the provisions of outstanding subdivider advance contracts and that it anticipates such outlays will increase in the next several years to a point where it will experience a cash deficit. Applicant contends that, in order to maintain its credit position, attract outside capital and extend and improve its service and facilities, it is imperative for it to reduce cash flow by converting its

outstanding revenue refund contracts to 3 percent preferred stock on a dollar-for-dollar basis. Applicant states that the proposed refinancing would develop additional internally generated funds for use in maintaining its plant and its operating standards, as well as improve its credit position through the increase of the equity portion of its capital structure.

According to applicant, conversion of the refund contracts to 3 percent preferred stock would balance its capital structure, which is now debt heavy. If it had to continue to operate with its present unbalanced capital structure, applicant states that it would be forced to finance exclusively through common stock with a consequent increase in cost of money. Applicant takes the position that conversion would benefit the consumer by resulting in a lower cost of money.

Proposed Refinancing

As of July 31, 1959, the amount of \$374,371.34 was subject to refund under the terms of outstanding subdivider advance contracts. Applicant proposes to issue on or before December 31, 1961, 3,740 3 percent preferred shares, par value \$100, in exchange at dollar-for-dollar, for the amounts refundable under the provisions of such contracts. Applicant has made a canvass of the holders of these contracts and believes that many would be willing to exchange their refund contracts for 3 percent preferred shares on the proposed dollar-for-dollar basis. Applicant asserts that conversion cannot be effected on reasonable terms if the contracts are converted on a basis reflecting the present worth of the refunds, rather than on the proposed dollar-for-dollar basis. The 3 percent preferred shares would be non-voting except during any period that dividends thereon were in arrears by at least the amount of two full semiannual dividends.

Applicant states that it is not affiliated with any of the holders of the outstanding revenue refund contracts.

Staff Testimony

Evidence was presented on behalf of the staff by an accounting witness and an engineering witness. The staff accountant testified that over a five-year period ending during 1959 the percentage of common equity in applicant's capital structure had declined from 47.0 percent to 24.5 percent and that during the same period the proportion represented by construction advances had increased from 10.4 percent to 42.8 percent, bringing the debt level of applicant's capital structure to over 69 percent. He further testified that unless applicant converts some of the refund contracts or obtains a substantial amount of additional equity financing from other sources, it will run out of cash and be obliged to curtail its contemplated plant expansion program. This witness recommended approval of the proposed dollar-for-dollar conversion to assist applicant in satisfying its financial requirements. He stated that conversion on a present-worth basis would be less desirable financially because it would not increase applicant's borrowing capacity to the extent that dollar-for-dollar conversion would.

The staff engineer testified that the proposed dollar-for-dollar conversion would be in conflict with the uniform water main extension rule the Commission established for all California water utilities in Decision No. 50580 in Case No. 5501, dated September 28, 1954. Section A-12 of that rule provides as follows:

"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."

According to the staff engineer the conflict arises from the fact that the present worths of the refund contracts are equivalent to only 60 percent of the amounts subject to refund over the lives of the contracts. He testified that conversion on a dollar-for-dollar basis would be equivalent to the present payment of amounts not due until the future and would increase applicant's present rate base by the full amount of such future payments. He took the position that conversion should be permitted on a present-worth basis only and then not beyond the extent absolutely necessary.

Findings and Conclusions

In two recent decisions in applications by other water utilities requesting authority to convert refund contracts to capital stock on a dollar-for-dollar basis,^{1/} the Commission found in each instance that conversion was contrary to Section A-12 of the utility's filed main extension rule. The Commission finds that the conversion for which authority is herein sought is equally contrary to applicant's main extension rule.

The Commission concludes that the application should be denied.

O R D E R

Public hearing having been held, the matter having been submitted for decision, the Commission now being fully advised and

^{1/} Decision No. 59356, dated December 8, 1959, in Application No. 41126; and Decision No. 59624, dated February 2, 1960, in Application No. 41450.

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 15th day of March, 1960.

Gene R. Page
 President

M. J. ...

E. ...

Theodore Jensen
 Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.