

Decision No. _____

60710

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

PACIFIC WATER CO., a California corporation, for authority under Section 816 of the Public Utilities Code to amend its Articles of Incorporation and for authority under Section 818 of the Public Utilities Code to issue 15,000 shares of Class AA preferred stock and to pay stock dividends.

Application No. 42483

In the matter of the Application of PACIFIC WATER CO., a California corporation, under the Provisions of Section 851 of the Public Utilities Code, to issue additional bonds pursuant to the Third Supplement to Indenture of Mortgage and Deed of Trust dated as of June 1, 1953.

Application No. 42501

Moss, Lyon & Dunn, by George C. Lyon,
for applicant.

O P I N I O N

In these proceedings the Commission is asked to enter its orders authorizing Pacific Water Co. to issue 15,000 shares of Class AA Preferred Stock, to execute a supplemental trust indenture and a purchase agreement, and to issue \$250,000 of its First Mortgage Series B 6-1/4% Bonds.

Application No. 42483 was filed on July 19, 1960 and Application No. 42501 on July 25, 1960. The two applications were consolidated for hearing before Examiner Coleman in Los Angeles on August 24, 1960, at which time they were taken under submission. The Commission has received no protests to the company's requests.

Applicant's financial statements filed in these matters show its recorded investment in utility plant as of April 30, 1960, at \$2,503,731, net after deducting the reserve for depreciation and contributions in aid of construction, and indicate its sources of funds as follows:

Bonds	\$ 717,000	28%
Notes	276,927	11
Contracts	31,746	1
Advances for construction	685,255	27
Subtotal	<u>1,710,928</u>	<u>67</u>
Preferred stock	368,530	14
Common stock and surplus	<u>475,054</u>	<u>19</u>
Total	<u>\$2,554,512</u>	<u>100%</u>

The record shows that the outstanding short-term notes have been issued to finance the cost of plant, that such notes have become due or are about to become due, and that applicant has need for funds to discharge the notes and to finance the cost of plant additions and improvements, including those heretofore ordered by the Commission. Applicant has reported that it is undertaking the following work:

Completion of metering program in Orange County . . .	\$70,000
Replacement of pipelines in Independence Square . . .	30,000
Installation of 8" line in Morongo Valley and other improvements	35,000
Installation of automatic equipment in the Rim Forest and Arrowhead View systems	5,000
Replacement of pipelines in Westminster system and installation of a new well	30,000

The testimony shows that applicant proposes, subject to obtaining authorization from the Commission, to sell \$250,000 of bonds at this time to Bankers Life Insurance Company of Nebraska and at a later date, after filing of a further application, to sell \$100,000 of additional bonds, pursuant to the terms of a proposed purchase agreement which has been filed in Application No. 42501 as Exhibit B. The bonds will constitute a new series which will be designated as First Mortgage Series B 6-1/4% Bonds; they will be dated as of June 1, 1960, will mature June 1, 1973, will bear interest at the rate of 6-1/4 per cent per annum and will be redeemable at the option of the company, in whole or from time to time, in part, at any time on or after June 1, 1967, at the principal amount and interest accrued thereon to the date fixed for redemption, plus a premium equal to 6 per cent of the principal amount if redeemed on or after June 1, 1967, but before June 1, 1968, and thereafter at annually reducing premiums.

The purchase agreement provides, among other things, that the additional \$100,000 of bonds will be taken by the insurance company when applicant has paid dividend arrears of approximately \$38,000 on its presently outstanding preferred stock and when it has issued an additional \$75,000 of either common or preferred

stock. Applicant reports that in order to meet these requirements of the purchaser, it is creating a new series of preferred shares, to be known as Preferred Class AA Stock, which will have a par value of \$10 each, will be entitled to receive cumulative dividends at the rate of 6-1/2 per cent per annum and will be convertible at the option of the holders prior to December 31, 1965 into fully paid and nonassessable common shares of the par value of \$1 each on the basis of nine common shares for each one share of preferred Class AA stock to be surrendered.

Applicant proposes to issue 15,000 of the new preferred shares at their par value of \$10 each and to distribute 3,800 of said shares, of the total par value of \$38,000, to its present preferred shareholders in payment of accrued and unpaid dividends and to sell the remainder of the shares, for which authorization is requested, for cash, through its own organization. The testimony shows that applicant has had earnings in excess of \$38,000 which have been invested in its plant and facilities and, in this connection, it is asserted that substantially all of the preferred shareholders are willing to accept the new preferred shares, instead of cash, in satisfaction of the accrued and unpaid dividends.

Testimony adduced at the hearing shows that applicant does not have sufficient cash on hand to meet its obligations; that it will have need for funds from external sources; that it has had extended negotiations in effecting the sale of its bonds and that the terms it has agreed upon, and also the terms under which it hopes to dispose of its preferred shares, are the best that it has been able to obtain or under which it hopes to be able to dispose of its securities.

Upon a full review of the record, we find and conclude - (1) that the proposed issues of stock and bonds are for proper purposes; (2) that the terms of such stock and bonds are reasonable under the conditions under which applicant has been organized, financed and now is operating; and (3) that the money, property or labor to be procured or paid for through the issue of said stock and bonds is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings, we will enter our orders granting applicant's requests.

The authorization herein granted is for the issue 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

A public hearing having been held in the above-entitled matters and the Commission being of the opinion that applicant's requests should be granted, therefore,

IT IS HEREBY ORDERED as follows:

1. Pacific Water Co., on or after the effective date hereof and on or before December 31, 1961, may issue not to exceed 15,000 shares of its Preferred Class AA Stock, at not less than their par value, and (a) may distribute not to exceed

3,800 of said shares in reimbursement of its treasury for moneys expended for plant additions and improvements and thereafter deliver said shares to the holders of its presently outstanding preferred stock in satisfaction of accrued and unpaid dividends, and (b) may sell the remainder of said 15,000 shares of Preferred Class AA Stock, for cash, for the purpose of paying outstanding indebtedness and of financing the cost of additions and improvements to its plant and facilities.

2. Pacific Water Co., from time to time, may issue such number of its common shares as may be required upon surrender of said Preferred Class AA Stock for conversion.

3. Pacific Water Co., on or after the effective date hereof and on or before December 31, 1961, may execute a purchase agreement and a Third Supplemental Trust Indenture in, or substantially in, the same form as the documents filed in Application No. 42501 as Exhibit B and Exhibit C, respectively.

4. Pacific Water Co., on or after the effective date hereof and on or before December 31, 1961, may issue not to exceed \$250,000 of its First Mortgage Series B 6-1/4% Bonds at not less than their face value, plus accrued interest, and use the proceeds to pay outstanding short-term indebtedness. The accrued interest may be used for general corporate purposes.

5. Pacific Water Co. 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.

6. The authority herein granted to issue bonds will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$250. In all other respects, the authority herein granted will become effective on the date hereof.

Dated at San Francisco, California,
this 13th day of September, 1960.

Creswell W. B. [Signature]
President
[Signature]
[Signature]

Commissioners

Matthew J. Dooley
Commissioner Theodore H. Jenner, being
necessarily absent, did not participate
in the disposition of this proceeding.

