

**ORIGINAL**

Decision No. 61327

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. 42838

INTERIM OPINION

The Campbell Water Company filed this application on November 9, 1960, for authorization to issue shares of preferred stock in exchange for subdividers' advance contracts.

Information filed with the Commission shows that applicant's operations and its investment in plant, along with the related subdividers' contracts, have been increasing rapidly. During the five-year period from 1955 to 1959, inclusive, for example, the operating revenues have increased from \$99,174 to \$163,982 and the number of meters from 1,871 at the beginning of 1955 to 3,023 at the end of 1959. It is estimated by the company that the number of meters will increase to 3,400 at the end of 1960 and to 4,400 at the end of 1962.

It appears that the plant necessary to serve the growth has been financed to a large extent with advances from subdividers, the balance sheet as of July 31, 1960, showing total advances of \$397,777 as compared with mortgage notes of

\$203,000 and equity capital of \$312,914. The following tabulation shows the changes in the capitalization ratios since 1955:

	<u>Notes</u>	<u>Advances</u>	<u>Pre-ferred Stock</u>	<u>Common Stock Equity</u>
<u>Dec. 31</u>				
1955	34%	9%	15%	42%
1956	28	21	13	38
1957	24	28	12	36
1958	31	37	7	25
1959	25	47	6	22
<u>July 31</u>				
1960	22	44	5	29

During 1960, the company obtained \$80,000 of additional equity funds through the sale of common shares and thereby and to that extent improved its capital structure. Applicant's common shares have a par value of \$25 each and for a number of years have been receiving annual dividends of \$1.25.

The company now reports that it is faced with heavy cash outlays for refunds under its existing contracts and for plant additions, that it anticipates such outlays will continue at a high level in the next several years, and that it does not have sufficient internal resources to permit it to meet its obligations under its existing and prospective contracts and at the same time maintain its credit position, attract outside capital and extend and improve its service and facilities.

Applicant asserts that its adverse cash position and its high debt ratio make it imperative that it take steps to reduce its cash outlays by converting outstanding refund

contracts to some other form of capital and to provide an adequate mortgage base for future financing. Specifically, it proposes, and now seeks authorization, to issue \$215,900 par value of its 3% preferred stock in exchange, at dollar for dollar, for unrefunded amounts of subdividers' advance contracts. Should the Commission not look with favor on such issue of 3% preferred stock, it requests, as an alternative, to be authorized to issue \$170,500 par value of 5-1/2% preferred stock in exchange, on a 6% present worth basis, for unrefunded amounts of such contracts. However, applicant takes the position that the issue of 3% preferred shares is more desirable than the issue of 5-1/2% preferred shares and, in the long run, will be more beneficial to its consumers, investors and contract holders.

Applicant's proposal to issue 3% preferred shares in the manner indicated would constitute a variance from its filed main extension rule. The Commission now has before it a proceeding, Case No. 5501, instituted on its own motion, to consider the matter of revising the present main extension rule and we do not consider it desirable at this time to enter an order with respect to one of the matters which may be considered and determined in that investigation. For this reason we will withhold any action on the company's request to issue 3% preferred stock pending final decision of Case No. 5501.

The termination of contracts, under certain conditions, on a present worth basis is permitted by the present rule and the order herein will authorize the issue of 5-1/2% preferred shares

so as to enable applicant to proceed with such conversions as it may be able to arrange. The authorization herein given is permissive only 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.

INTERIM ORDER

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, hereby finds that the request of The Campbell Water Company to issue shares of 3% preferred stock should be held in abeyance and that the request to issue 5-1/2% preferred stock should be granted; therefore,

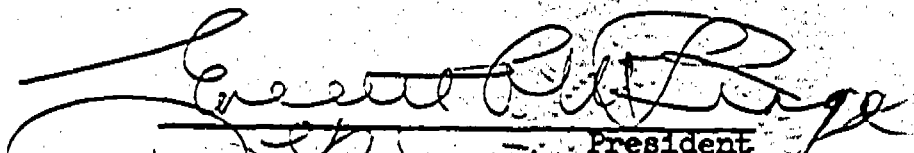
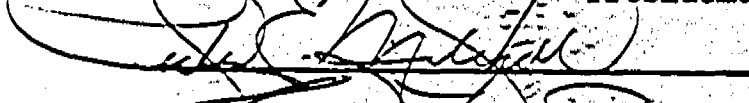
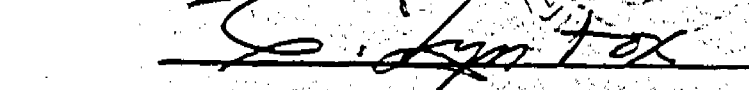
IT IS HEREBY ORDERED as follows:

1. The Campbell Water Company, on or after the effective date hereof, and on or before December 31, 1962, may issue not to exceed 1,705 shares of its 5-1/2% preferred stock in exchange, on a 6% present worth basis, for unrefunded amounts of subdividers' advance contracts, it being the opinion of the Commission that the money, property or labor to be procured or paid for by the issue of such shares is reasonably required for the purpose specified herein and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

2. 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.

3. The authority herein granted shall become effective 20 days after the date hereof.

Dated at San Francisco, California,  
this 10<sup>th</sup> day of JANUARY, 1961.

  
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President  
  
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Commissioners