

ORIGINAL

Decision No. 61798

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of MESA CREST WATER COMPANY, a
California corporation, for
authority to issue 12,000 shares
of its Class A preferred stock.

Application No. 43069
Filed January 16, 1961

OPINION AND ORDER

In this application the Commission is asked to enter an order authorizing Mesa Crest Water Company to issue 12,000 shares of its Class A 5-1/4% Preferred Stock of the aggregate par value of \$120,000.

Applicant was organized under the laws of the State of California on or about March 20, 1956. By Decision No. 55615, dated September 24, 1957, it was certificated to operate as a public utility water company in a portion of Los Angeles County in the community of La Canada, northwest of Pasadena, and was authorized to issue \$120,000 par value of common stock to finance the acquisition of land and the payment of organization and construction costs and to provide working capital.

According to the record in the 1957 proceeding the company's service area comprises some 600 acres within the Foothill Municipal Water District, to be divided into

approximately 1,000 lots, which will be developed in successive stages over a period estimated from five to seven years. It was estimated by applicant that with approximately 325 consumers at the end of three years it would have no out-of-pocket loss.

Information filed with the Commission shows that pursuant to the authorization granted, the company issued the \$120,000 of common stock to Admiral Building Company, that it went forward with the construction of its plant, and that it undertook the distribution of water. Up to the end of 1960 it had attached about 120 consumers to its lines, instead of 325, and had invested in water works facilities and other properties the sum of \$223,666 which had been provided by the common stock, by subdividers' advances of \$66,342 and by borrowings of approximately \$40,000 from Admiral Building Company.

Applicant now reports that extensions of its service in 1961 will require it to raise additional capital funds to liquidate its borrowings and to construct new facilities in amounts estimated as follows:

Repayment of borrowings from Admiral Building Company	\$ 40,000
Purchase reservoir site	8,000
Construct 500,000-gallon tank	35,000
Construct booster plant	15,000
Construct distribution mains	10,000
Purchase and install meters	7,200
Miscellaneous	<u>4,800</u>
Total	<u>\$120,000</u>

We are informed that the proposed expenditures of \$10,000 for mains which are included in the preceding tabulation, represent the estimated cost of over-sized mains for the benefit of the company which are not chargeable to the subdividers.

The company, as stated, was certificated in 1957. In 1958, it reported a net loss of \$4,593; in 1959, \$3,791; and in 1960, \$2,315. The annual dividends on the 12,000 preferred shares will aggregate \$6,300 annually. These dividends are cumulative and while applicant's operating results have been improving and, no doubt, will reflect increased business from the proposed 1961 additions, still there is no assurance, from the information at hand, that the dividends will be earned, at least during the early years of operations, and it may well be that arrearages will be accumulated which would have an adverse effect on applicant's cash position in the future if the company were to be called upon to meet these accumulated and unpaid balances along with its other obligations. It seems to us that the capitalization of the properties should bear some relation to the earnings from such properties, as well as to their cost, and under the circumstances we conclude that the company should not be authorized to issue the preferred shares at this time. We suggest that the moneys necessary to develop the properties, aside from moneys obtained through the application of the main extension rule, be realized through the issue of common shares or, temporarily at least, from advances by the shareholders.

For the reasons just stated we find that the application should be denied. A public hearing is not necessary.

Therefore, good cause appearing,

IT IS HEREBY ORDERED that Application No. 43069, be, and it hereby is, denied.

This order will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 11th day of April, 1961.

[Signature]
President

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Commissioners