

FEE DUE ON DECISION NO. 61956 HAS NOT BEEN PAID
AUTHORITY TO SERVE DECISION WITHOUT RECEIPT OF
PAYMENT OF FEE WAS GIVEN BY MR. CASSIDY IN MEMO
TO MR. NOEL COLEMAN DATED SEPTEMBER 26, 1961
ATTACHED TO CORRESPONDENCE SECTION OF FORMAL
FILE IN APPLICATION 42584.

Decision No. 61956**ORIGINAL**

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
 company to borrow the sum of \$150,000,
 to issue Class "B" Common Stock, and
 to deviate from its Main Extension Rule.

Application No. 42584
 (Amended)

O P I N I O NApplicant's Request

La Granada Water Company, a California corporation providing public utility water service to domestic users in Riverside County, filed this application on August 16, 1960, and an amendment thereto on November 29, 1960. Applicant requests that the Commission authorize it:

1. To borrow the sum of \$150,000 at an interest rate of 6 percent per annum from Pacific Mutual Life Insurance Company (Pacific Mutual) for a 20-year period with annual sinking fund payments of \$3,000;
2. As a condition precedent to the above-mentioned loan imposed by Pacific Mutual, to issue 7,967 shares of its Class B \$10.00 par value,* in the total par value of \$79,670, in consideration of the cancellation on the basis of present worth of the unrefunded portion of contracts for advances in aid of construction held by affiliates;
3. To issue, as needed, up to 10,737 shares of its Class B \$10.00 par value common stock, in the total par value of not to exceed \$107,370, in consideration of the cancellation of refund contracts for advances in aid of construction to have been entered into during the year 1960;
4. To issue, as needed, 2,779 shares of its Class B \$10.00 par value common stock, in consideration of amounts payable to affiliates and non-affiliates during the year 1960 in the amount of \$27,790;

*The preferences, privileges and restrictions granted to or imposed upon applicant's Class A and Class B common stock are the same, except that the Class B shares are non-voting and pre-emptive rights are limited to Class A shares only.

5. To issue, as needed, 2880 shares of its Class B \$10.00 par value common stock in the total par value amount of \$28,800 in consideration of the cancellation on the basis of present worth of the unrefunded portions of contracts for advances in aid of construction held by non-affiliates;
6. To issue 26,710 shares of its Class A \$10.00 par value common stock in consideration of the presently issued and outstanding 100 shares of no par stock with a book value of \$267,112.

Financial Needs of Applicant

Applicant states that it urgently needs the funds it proposes to borrow from Pacific Mutual; that it recently spent or incurred liabilities in the amount of \$67,649.39 in developing additional water supplies; that it would use \$46,750 of the proceeds of the loan to repay cash advanced by affiliates and would use \$13,250 to pay amounts now due contractors and suppliers for work and materials; and that, after payment of \$5,000 loan expense, it would use the remaining \$85,000 to install an 18-inch main and to relocate the 12-inch main now transmitting water to its service area. According to applicant the 12-inch main has insufficient capacity to provide an adequate supply of water to its service area.

Applicant states that it has made many unsuccessful contacts in its attempts to arrange a loan and that Pacific Mutual is the only source of borrowed funds which may be available to applicant. Applicant states that its major obstacle to borrowing has been its low earnings and its apparent inability to properly amortize a loan.

Findings and Conclusions

Applicant seeks authority herein to deviate from Section A.12. of its main extension rule in that the greater portion of the refund contracts proposed to be terminated and cancelled through conversion to common stock are not at least two years old. However, applicant states that all of the contracts for advances in aid of construction pertain to subdivisions in which single-family residences

have been constructed on each lot. Further, applicant indicates that all of the advances would be repaid by applicant within the 20-year period of the respective contracts, if not terminated on a present worth basis. It thus appears that waiving the two-year delay period prescribed by the main extension rule would not, in this instance, result in an investment by the utility in speculative or uneconomical extensions of distribution mains. It also appears that the proposed conversions would materially improve applicant's financial structure and would assist applicant in financing the plant additions and betterments essential in meeting the growing requirements of its service area.

The Commission finds that it is in the public interest to grant the application and to authorize applicant to deviate from Section A.12. of its main extension rule to the extent necessary to accomplish conversion of refund contracts to common stock as proposed in the application.

The amendment to the application shows that the present worth of the unrefunded portions of contracts for advances in aid of construction held by affiliates totalled \$68,596 as of December 31, 1959, rather than \$79,670 as indicated in the original application. Similarly, the amendment shows that the corresponding present worth of the unrefunded portions of contracts held by non-affiliates totalled \$26,208, rather than \$28,800.

The application requests authority for the issuance of a total of 24,363 shares of Class B common stock. The amendment thereto, which contains, as discussed above, corrected and lesser amounts for the present worth of the contracts to be converted, does not correspondingly reduce the total number of such shares proposed to be issued. The number of Class B shares authorized to be issued herein will be 22,997 shares, which lesser number reflects the corrected present worth amounts shown in the amendment.

Processing of this application was delayed by ambiguity in the application regarding contracts entered into during the year 1960 as to whether (a) they were to be cancelled by issuance of stock or (b) they were to remain in effect, with stock being merely substituted for cash as refunds become due. By letter dated February 15, 1961, in response to an inquiry from the Commission, applicant clarified this point, stating that it seeks authorization to issue stock in lieu of the cash refunds which would otherwise become due under the contracts. Applicant states further that the holder of each contract would have the right, as the refunds become due, to accept or reject the payment of such refunds in stock and could insist on payment in cash. The letter also clarified another important point. To avoid discrimination, applicant states that it intends to file a proportionate cost refund form of agreement to be used for all extensions, whether made for affiliates or non-affiliates of the utility.

The Commission finds that applicant's proposal to refund in stock instead of cash, if acceptable to each party entitled to such refund, and its proposal to use the proportionate cost method for all refund agreements entered into in the future are in the public interest.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares, nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the approval herein given is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and finding that a public hearing is not necessary, that the application should be granted as herein provided, that the money, property, or labor to be procured or paid for by the issue of the stock and indebtedness herein authorized are reasonably required for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS ORDERED that:

1. Applicant, for the purposes set forth in the application, is authorized to issue up to 22,997 shares of its Class B \$10.00 par value common stock.

2. Applicant is authorized and directed to waive the two-year delay prescribed by Section A.12. of its filed main extension rule and to offer to the holders of outstanding percentage-of-revenue refund agreements summarized in Exhibit "Amended F", attached to the amendment to the application, the option of (a) cash refunds over a period of years as provided in the contracts or (b) termination of said contracts by the issuance of Class B common stock equal to the "present worth" of such contracts as determined by the provisions of said Section A.12.

3. Applicant is authorized and directed to offer to the holders of presently outstanding proportionate cost refund agreements the option of receiving refunds, as they become due as provided in the contracts, either (a) in cash or (b) in Class B common stock with par value equivalent to such cash.

4. Applicant is authorized to issue 26,710 shares of its Class A \$10.00 par value common stock in consideration of the cancellation of its presently outstanding 100 shares of no par stock.

5. Applicant is authorized to borrow not to exceed \$150,000 from Pacific Mutual Life Insurance Company upon the terms and conditions set forth in the application and to execute a mortgage of chattels and to issue a note or notes in evidence of such borrowings under terms substantially the same as those set forth in the application.

6. Applicant is authorized and directed to file a standard form of main extension agreement, other than for extensions to serve individuals, providing for the refunding of advances by the proportionate cost refunding provision (Section C.2.a.) of its filed main extension rule, and is directed to use only such form of agreement for future extensions other than for extensions to serve individuals, unless otherwise authorized by this Commission.

7. Applicant shall file with the Commission monthly reports as required by General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

8. The authority granted herein to issue a note or notes shall become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$150. In other respects, the authority shall become effective twenty days after the date hereof. Such authority, if not exercised, shall expire December 31, 1961.

Dated at San Francisco, California, this 9th day of MAY, 1961.

[Signature]
 President

[Signature]

[Signature]

[Signature]
 Commissioners