

ORIGINAL

Decision No. 63198

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of

CREST WATER COMPANY,
a California corporation,

to issue stock.

Application No. 44105
Filed January 16, 1962
and Amendment
Filed January 25, 1962

O P I N I O N

In this application Crest Water Company seeks an order (1) authorizing it to issue 2,980 shares of its common stock and 20,000 shares of its 5-1/2% noncumulative preferred stock at their par value of \$10.00 a share and (2) approving a revised tariff service area map.

The company proposes to issue the common shares to Hugh Curran, its president, in payment for an existing well, well site, transmission mains and other improvements, as set forth in detail in Exhibit B, and to issue the preferred shares to S & G Properties, Inc., W. J. Development Company, Cen. Cal. Development Company, dba Crest Land Company, and G T Corporation in discharge of advances made to it for the construction and acquisition of off-site facilities and for cash in the amount of approximately \$75,000.00 to provide the cost of additional facilities to be installed.

Crest Water Company is engaged in constructing and operating a water system in an area northeast of Bakersfield. The application shows that up to November 30, 1961, it had invested \$584,440.25 in utility plant; that it had financed itself, in part, with amounts advanced from subdividers to pay for main extensions and also for off-site facilities; and that it has under consideration the additional expenditure of \$76,340.00 for back-up plant, consisting of production and storage properties. Assertedly, applicant undertook the construction and expansion of its water works installations into additional lands under arrangements whereby various subdividers agreed to provide the required funds in amounts proportionate to the acreage which each subdivider intended to develop within the contemplated extended service area. It is alleged that under these arrangements applicant filed a revised tariff service area map to include additional acreage and it received \$24,410.22 from W. J. Development Company, \$43,809.81 from S & G Properties, Inc., and \$2,068.68 from Howard Murray, together with a note from Cen. Cal. Development Company in the original principal amount of \$71,072.70 but since reduced to \$58,572.50.

Applicant's operations, construction and financing practices have been subjects of review by the Commission in a series of formal proceedings. By Decision No. 60943, dated October 25, 1960, in Application No. 41991, the Commission denied a request by the company to deviate from its main

extension rule and to execute five contracts with subdividers providing for advances to pay for back-up plant and, instead, authorized the company to issue common stock in the amount of \$30,000.00 par value to pay for such plant, which stock was issued and is outstanding. On May 16, 1961, the Commission instituted Case No. 7116, being an investigation into the propriety and reasonableness of the proposed revised tariff service area map, and on August 22, 1961, it instituted Case No. 7177, being an investigation into applicant's operations, service, practices, contracts, facilities and financial status. Public hearings have been held in these matters but no decision has yet been entered on them. By Decision No. 62771, dated November 7, 1961, in Case No. 7053, the Commission awarded to S & G Properites, Inc., reparations in the amount of \$43,809.81 representing advances required for off-site improvements in excess of the charges specified in the utility's main extension rule. However, the company filed a petition for rehearing, and on November 22, 1961, the Commission stayed the effective date of said Decision No. 62771.

In an endeavor to resolve these various matters and to improve its cash position by satisfying the reparations award of \$43,809.81 and any similar amounts which may become payable, and at the same time to make provision for the orderly financing of future improvements, applicant is taking steps to amend its Articles of Incorporation so as to authorize the issue of shares

of preferred stock and, thereafter, to issue such preferred shares to subdividers in full discharge of the amounts advanced by them for off-site facilities, including the aforesaid reparations award, and to sell to subdividers additional preferred shares for cash to meet the proposed capital expenditures. The subdividers have advised the Commission, in writing, of their willingness to purchase and subscribe for the 20,000 preferred shares in satisfaction of any obligation of Crest Water Company to repay the advances heretofore made and in exchange for additional cash to be advanced for further off-site facilities.

In presenting this application to the Commission, applicant has filed a financial statement as Exhibit D. The statement shows, among other things, operating revenues of \$83,929.70 for the eleven months ended November 30, 1961, and expenses (exclusive of capital construction costs) of \$64,783.43, leaving net revenues from operations of \$19,146.27. Included in the expenses is an allowance of \$13,070.09 for depreciation so that the cash flow into the business, represented by the net revenues and depreciation charges, was \$32,216.36.

The interest on the notes outstanding on November 30, 1961 amounts to \$1,290.00 annually and the annual dividends on the preferred stock, when and if issued, would aggregate \$11,000.00, although noncumulative.

The company has common stock outstanding, as of November 30, 1961, of \$265,000.00 with no long-term debt and with short-term notes of only \$17,000.00. Its current liabilities were reported at \$33,986.37 and this sum and the reparations award aggregated \$77,796.18, as compared with current assets of \$70,862.84.

Included in the current assets is the note for \$58,572.50 from Cen. Cal. Development Company, an affiliated corporation, representing the balance of the note which that corporation issued to applicant, in lieu of cash, for advances for construction.

We have considered this and the other matters now before us concerning this utility and we are of the opinion, and we so find and conclude, that -

1. Applicant's proposed financing arrangements as set forth in this application, if successfully consummated, will improve its cash position and should place it in a position where it can meet its capital and operating requirements under satisfactory terms and conditions;
2. The money, property or labor to be procured or paid for by the issue of the shares of stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income;
3. An order should be entered granting the request for authority to issue stock, provided, however, that no shares of the stock should be issued to Cen. Cal. Development Company in satisfaction of advances for construction until that company has paid to applicant \$58,572.50 in cash, to liquidate the note it issued to applicant; and

4. The request for approval of the tariff service area map should be denied herein and considered in Case No. 7116.

The authorization herein given is for the issue of stock 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

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary and that the application should be granted,

IT IS ORDERED that -

1. Crest Water Company, on or after the effective date hereof and on or before December 31, 1962, may issue not to exceed 2,980 shares of its common stock and not to exceed 20,000 shares of its 5-1/2% noncumulative preferred stock at the price and under the terms and conditions and for the purposes specified in this application, provided, however, that none of such shares shall be issued to Cen. Cal. Development Company until that company has paid to applicant, in cash, the amounts necessary to liquidate the note heretofore issued by that company to applicant.

2. Crest 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. Except as otherwise ordered herein, Application No. 44105 is denied.

4. The authority herein granted shall become effective when Crest Water Company has filed with the Commission a certified copy of its Articles of Incorporation as amended to provide for the shares of preferred stock.

Dated at San Francisco, California,
this 6th day of FEBRUARY, 1962.

Charles H. Page
President
W. L. D. [unclear]
E. L. Fox
George D. Grover
Fredrick B. Holbrook
Commissioners