

ORIGINAL

Decision No. 68377

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of EVERGREEN SERVICE COMPANY for
authority to increase rates charged
by it for water service.

)
)
) Application No. 45730
(Petition filed July 13, 1964)

In the Matter of the Application
of EVERGREEN SERVICE COMPANY, a
California corporation, for
authorization to issue long-term
notes in the principal amount of
\$90,000.00 and to issue 816 shares
of its \$100 par value stock.

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)
) Application No. 46793
(Filed July 13, 1964)

F. R. Anderson, for applicant.

David F. LaHue and H. H. Webster, for
the Commission staff.

O P I N I O N

Applicant Evergreen Service Company seeks authority to increase its water rates to offset the effects of (1) certain changes which have taken place since its present rates were established and (2) changes which it now proposes. Applicant also requests authority to issue securities.

A public hearing on these applications was held before Examiner Catey in Santa Maria on October 27, 1964. Copies of applicant's petition in Application No. 45730, copies of the amendment thereof filed August 24, 1964, copies of Application No. 46793, copies of the amendment thereof filed August 24, 1964, and notice of hearing had been served in accordance with this Commission's rules of procedure. Testimony on behalf of applicant was presented by its president, and the Commission staff presentation was made by an accountant and an engineer. There were no

protests against the requested rate increase or the proposed financing. Both matters were submitted at the conclusion of the hearing.

Applicant provides water service to an area of some 400 acres, located in Santa Barbara County about three miles south of Santa Maria.

Application No. 45730

Decision No. 66812, dated February 18, 1964, in Application No. 45730, granted applicant a rate increase based upon adjusted operations for the test year 1963. In its petition for modification of Decision No. 66812, applicant advised this Commission of the increase of about 32 inactive services due to depressed economic conditions in the Santa Maria area, and of proposed changes in capital structure, which factors were not reflected in the adjusted operations upon which applicant's present rates were based. The effect of those factors is offset somewhat by reductions in federal income tax rates. Applicant alleges that a further six percent revenue increase of \$3,300 per year, or \$0.40 per customer-month, is required to offset the loss in net revenue and maintain the seven percent return on rate base found reasonable in Decision No. 66812.

The Commission staff report, Exhibit No. 1-A, indicates that the increase in number of inactive services was 23 and that a four percent increase of only \$0.30 per customer-month is required to maintain a seven percent return on rate base.

Applicant's president testified as to the number of customers and number of bills rendered for August, September, and October of 1964. Based upon this more recent data, it appears that the number of inactive services will fall somewhere between

the estimates of the staff and applicant, and that a five percent increase of \$0.35 per customer-month will maintain a seven percent return on applicant's rate base.

Summarized in the following table are the 1963 test year operations adopted in Decision No. 66812 at the present rates which were authorized by that decision. For comparison, the table shows the effect of the changes in number of inactive services, of the lower income tax rates in effect at the end of 1964, and of the proposed change in capital structure, as estimated by applicant in Exhibit "F-1" to its amended petition, and as estimated by the staff in Exhibit No. 1-A.

TABLE I

Adjusted Results of Operations, Year 1963

	<u>Decision No. 66812</u>	<u>Adjusted</u>	
		<u>Staff</u>	<u>Applicant</u>
Operating Revenues, Present Rates	\$61,000	\$59,430	\$58,400
<u>Deductions</u>			
Operating Expenses	33,800	33,480	33,450
Taxes (Excluding Income Taxes)	3,400	3,400	3,400
Income Taxes	3,350	2,180	1,750
Depreciation	<u>7,400</u>	<u>7,800</u>	<u>7,800</u>
Total Deductions	47,950	46,860	46,400
Net Revenue	13,050	12,570	12,000
Rate Base	183,000	206,300	206,300
Rate of Return	7.1%	6.09%	5.8%
Gross Revenue Increase <u>Required for 7% Return</u>			
Annual Revenue	-	\$2,540	\$3,300
Revenue per Customer-Month	-	0.30	0.40

Application No. 46793

Decision No. 66812 pointed out that applicant is in financial difficulties, attributable largely to the unwillingness

or inability of its stockholders to provide additional equity financing.

Application No. 46793 outlines a plan for improvement of applicant's capital structure. Demand notes in the amount of \$40,400 which are held by stockholders would be retired in exchange for 404 shares of applicant's \$100 par value common stock. An additional 412 shares of such stock would be issued to effect the transfer of \$41,200 from capital surplus to capital stock. Under this arrangement, the note for \$180,000 which applicant was authorized to issue (Decision No. 64693, dated December 20, 1962, in Application No. 44784) but which authority expired July 31, 1963, without having been exercised, would be issued in the reduced amount of \$90,000. The proceeds of the note would be used to terminate main extension agreements, to pay accrued liabilities, and to make plant improvements.

The following table shows applicant's capital structure as of April 30, 1964, together with a pro forma capital structure as of the same date, assuming applicant's proposed refinancing to have been effected:

TABLE II

Capital Structure as of April 30, 1964

<u>Item</u>	<u>Amount</u>		<u>Percent</u>	
	<u>Present</u>	<u>Pro Forma</u>	<u>Present</u>	<u>Pro Forma</u>
Debt	\$ 66,956	\$101,000	28.7	39.3
Advances	103,030	52,234	44.1	20.3
Equity	<u>63,633</u>	<u>104,048</u>	<u>27.2</u>	<u>40.4</u>
Total	\$233,619	\$257,282	100.0	100.0

Termination of Main Extension Agreements

Decision No. 66812 pointed out that lawsuits were imminent for collection from applicant of delinquent refunds related

to main extension agreements. Applicant alleges that such suits now have been filed. Part of the proceeds of applicant's proposed loan is for payment of delinquent refunds and for termination of future refund obligations under certain main extension agreements. This would remove the cause of the pending lawsuits.

The record in Application No. 45730 shows that, during the year 1962, the wife of the president (and major stockholder) of applicant purchased three refund agreements from the previous holders thereof for about \$22,000. This price was equivalent to the delinquent refunds under those contracts plus about 30 percent of the remaining unrefunded balance not yet due thereunder. That record also showed that 30 percent of the unrefunded balance was typical of prices prevalent for similar contracts throughout the State. Applicant terminated those contracts by payment to its president's wife of \$40,193.07 in the form of a six percent demand note, but Decision No. 66812 advised applicant that the transaction was not proper. Applicant then cancelled the transaction.

Applicant has negotiated directly with nonaffiliated holders of other main extension agreements but apparently has not been able to terminate the agreements at the typical prevailing price of 30 percent of the unrefunded contract balance. Tentative arrangements for termination of five agreements at about 60 percent of the unrefunded balance are indicated by Exhibits "A" through "E" attached to applicant's petition for modification of Decision No. 66812. Two agreement holders apparently will not terminate unless applicant pays in excess of the maximum permitted by its main extension rule, but the excess amount is only \$1,804 and applicant's stockholders allegedly will contribute the excess to applicant in order to effect the proposed refinancing plan.

Findings and Conclusion

The Commission finds that:

1. An increase of \$2,900 in applicant's annual revenue, or approximately \$0.35 per customer-month, is required to offset changes in customer density occurring since the present rates were established in this proceeding, to offset proposed changes in capital structure, and to maintain a seven percent rate of return on rate base, which rate of return is reasonable for the purposes of this proceeding.

2. The increase in rates and charges authorized herein is justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

3. The money, property or labor to be procured or paid for by the issue of the stock and indebtedness herein authorized is reasonably required for the purposes specified herein, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

4. The termination of the five main extension agreements as discussed herein is not adverse to the public interest.

The Commission concludes that the application should be granted to the extent, and under the conditions, set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Evergreen Service Company is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall

comply with General Order No. 96-A. The effective date of the revised schedule shall be January 15, 1965, or four days after the date of filing, whichever is later.

2. After the effective date of this order, applicant may issue not to exceed \$81,600 aggregate par value of its capital stock, at par, for the purposes set forth herein.

3. After the effective date of this order, applicant may issue its promissory note in the principal amount of not to exceed \$90,000, substantially in the form of Exhibit "D" attached to Application No. 46793, for the purposes set forth herein.

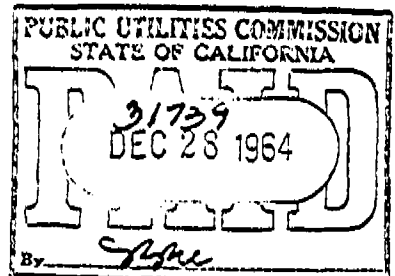
4. After the effective date of this order, applicant may terminate five main extension agreements discussed herein, substantially under the terms set forth in Exhibits "A" through "F" attached to applicant's petition for modification of Decision No. 66812. The credits to Ac. 265, Contributions in Aid of Construction, resulting from termination of such refund agreements shall, in each instance, be not less than the amount resulting from the application of applicant's main extension rule. Any amount paid, for termination of an agreement, which exceeds the amount permitted by applicant's main extension rule shall be borne by applicant's stockholders, either as a payment of such excess to applicant by its stockholders or by the charging of such excess to stockholders' equity by a debit to surplus.

The authority herein granted to issue a note will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$90.

In all other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 22nd day of December, 1964.

Fredrick B. Holbert
President
Edy Spitzer
Walter C. Page
George T. Hoover
William W. Bennett
Commissioners



APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The areas known as Evergreen Acres, Majestic Homes, Tract 10003, Tract 10017, Country Club Estates and Bel Aire Estates, and vicinity, located approximately three miles south of Santa Maria, Santa Barbara County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 1,000 cu.ft. or less	\$ 3.35	(I)
Next 1,000 cu.ft., per 100 cu.ft.20	
Over 2,000 cu.ft., per 100 cu.ft.18	
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 3.35	(I)
For 3/4-inch meter	4.25	
For 1-inch meter	6.50	
For 1 1/2-inch meter	12.00	
For 2-inch meter	15.00	
For 3-inch meter	25.00	
For 4-inch meter	50.00	

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.