

ORIGINALDecision No. 70011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of VALLECITO WATER COMPANY, a)
corporation, for authority to)
sell and issue 50,000 shares of)
its common stock.)

Application No. 47790
Filed August 3, 1965;
Amended September 1, 1965.

In the Matter of the Application)
of SAN GABRIEL VALLEY WATER COM-)
PANY for an order authorizing it)
to acquire common stock of)
Vallecito Water Company.)

Application No. 47809
Filed August 13, 1965

Wm. M. Lassleben, Jr., for applicant in
Application No. 47790, and as interested
party in Application No. 47809.
Brobeck, Phleger & Harrison, by Robert N. Lowry,
for applicant in Application No. 47809, and
as interested party in Application 47790.
Raymond E. Heytens, for the Commission staff.

O P I N I O N

By these applications, Vallecito Water Company seeks authority to issue and sell 50,000 shares of its common stock under a plan which provides that said shares will be offered to existing shareholders for cash at no less than book value (approximately \$14.38), or for not less than \$14.10 per share, which would yield at least \$705,000, and San Gabriel Valley Water Company seeks authority to purchase all of the proposed issue at \$16.10 per share, which would produce \$805,000 of cash to Vallecito. Exhibit No. 8 is San Gabriel's offer to purchase 43,789 shares at \$16.10 per share, which would return \$705,003 of cash to Vallecito.

Public hearings were held before Examiner Warner on August 30 and September 1, 1965, at Los Angeles. The matters were submitted subject to the receipt of late-filed Exhibits Nos. 13 and 14 on or before September 7, 1965, which have been received.

Vallecito proposes to apply the proceeds from the stock issue to pay and discharge its recently issued \$125,000, 1-year, unsecured, 6% previously authorized renewal note held by Security First National Bank; to pay and discharge its \$100,000, 90-day, unsecured, 6% promissory note, dated June 7, 1965, held by said bank, the proceeds from which have been used to pay accounts payable of \$31,000, to make service revenue refunds of \$30,000 for the years 1959-1962, to pay notes of \$22,500 payable to Neptune Meter Company, to pay notes of \$2,500 payable to Sunset International Petroleum Company, and for working cash of \$14,000; to pay and discharge its \$275,000, 90-day, unsecured, 6-1/2% promissory note, dated March 26, 1965, issued to and held by Salesmen Realty, Inc., of Denver, Colorado, the proceeds from which have been used to replace 30- and 12-inch concrete supply mains, replace the pumps and natural gas engines on Wells Nos. 1 and 6 with electric-driven pumps, for demolishing, piping, and constructing sand traps, and installing meters at the well sites, for installing panels and underground conduits, and for water meters, telemetering, transportation equipment, radios, tools, service stubs, fire hydrants, unforeseeables, and working cash, all totaling an estimated cost, as shown in the application of \$284,000; to pay the cost, amounting to \$70,000, for the construction of a new office building and shops; to install additional plant and needed facilities, to terminate existing refund contracts, to reimburse the treasury for refund payments made this year, and to provide funds to be used, in part, to make future required refund payments, all totaling \$130,000 as shown in Vallecito's application.

There are several substantial discrepancies between the disposition of the anticipated proceeds set forth in Vallecito's application and the proposed disposition outlined by the witness Hannon, Vallecito's executive vice president, both as to amount and purpose. Included in the construction cost for replacement of

supply mains in an amount of \$6,093.46 for engineering charges by Valinda Engineering Co., of which Vallecito's president, Garnier, is a principal. Also included in the estimated costs for replacing the well motors and pumps, and the construction related thereto, is an amount of \$5,768.74, charged by Valinda. No bids were sought on the contract for engineering services. Also included in construction costs is an amount of \$1,800 per month, capitalized out of administrative and general expenses, representing 50% of general manager Richards' \$900 per month salary, 50% of secretary Roby's \$700 per month salary, 75% of president Garnier's \$700 per month salary, and 50% of vice presidents Hannon and Dietz' \$150 each per month salary, together with office expense of \$150 per month, and \$175 per month of legal expenses. The effect of the capitalization of such salaries is to increase the costs of plant and reduce operating expenses and, although the witness Roby testified that such capitalization was based on a schedule prepared by vice president Dietz, such schedule is not of record herein.

Case No. 8086 is an investigation on the Commission's own motion into, among other things, the circumstances surrounding the acquisition of 18,003 shares of Vallecito's outstanding 38,332 shares of common stock by William J. Hickey, an individual. Hearings on the investigation were held in July, August and early September 1965, and will continue to be held. Decision No. 67261, in Application No. 45688, found the transfer of the 18,003 shares to and acquisition by Calfin Co., alter ego of Suburban Water Systems, a public utility water corporation under the jurisdiction of this Commission, or Toll & Co. as nominee for Security First National Bank, to have been in violation of Section 851 of the Public Utilities Code and, therefore, null and void and of no effect. Official notice is hereby taken of Decision No. 67261 and of the pendency of Case No. 8086.

By Decision No. 69105, dated May 20, 1965, in Application No. 47094, the Commission denied an application by Vallecito Water Company for authority to issue \$500,000 aggregate par value of convertible preferred stock, and a corresponding amount of common stock for accomplishing the conversions. The present proceedings overcome the objectionable features of Application No. 47094.

The Commission finds that:

1. The granting of the applications is in the public interest except that no stock should be issued to cover the capitalization of administrative and general salaries, engineering services, or the cost of construction of a new office building as proposed in Application No. 47790.

2. San Gabriel's offering price of \$16.10 per share is the best offer and the sales price of the stock hereinafter authorized to be issued should be set thereat.

3. The money, property or labor to be procured or paid for by the issue of the stock 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 validity of the acquisition of 18,003 shares of Vallecito's stock by William J. Hickey is questionable and any shares of stock herein authorized which may be acquired by William J. Hickey should be placed in escrow until further order of the Commission.

We conclude that Vallecito should be authorized to issue and sell not to exceed 50,000 shares of its common stock at a price of \$16.10 per share for the purposes set forth in these proceedings, subject to the exceptions stated in the above Findings Nos. 1 and 4, and that San Gabriel should be authorized to purchase and acquire such of said shares as may be available for it to purchase.

In issuing our order herein, we place Vallecito 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 authorization 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 proceedings for the determination of just and reasonable rates.

No good cause is shown on the record for the granting of Vallecito's request that separate orders on the instant matters be issued, and such request is denied.

O R D E R

IT IS ORDERED that:

1. Vallecito Water Company, on or before June 30, 1966, may issue and sell not to exceed 50,000 shares of its common stock at \$16.10 per share for the purposes specified in the foregoing opinion, subject to the exceptions therein stated.
2. San Gabriel Valley Water Company is authorized to purchase and acquire any or all of Vallecito's available stock authorized herein, at the price of \$16.10 per share.
3. Any stock herein authorized which is contemplated to be acquired by William J. Hickey shall not be sold or issued unless and until Vallecito Water Company first shall have selected an escrow holder and said escrow holder shall have been first approved, in writing, by the Commission. When issued, all documents evidencing any of said stock shall forthwith be deposited with said

escrow holder, to be held as an escrow pending the further written order of the Commission. The receipt of said escrow holder for said documents shall be filed with the Commission and William J. Hickey shall not consummate a sale or transfer of said stock, or any interest therein, or receive any consideration therefor, until the written consent of the Commission shall have been obtained so to do.

4. Vallecito Water Company shall file the reports required by General Order No. 24-B.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 26th day of NOVEMBER, 1965.

Frederick B. Halden
President

George T. Grover

Augustus

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.