

ORIGINAL

Decision No. 77105

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 VALLECITO WATER COMPANY for)
 authority to issue and sell 28,749)
 shares of its Common Stock, and for)
 authority to borrow \$500,000 and to)
 issue its promissory note or notes)
 therefor.)

Application No. 51704
 Filed February 13, 1970

In the Matter of the Application of)
 San Gabriel Valley Water Company for)
 an Order Authorizing it to Acquire)
 Common Stock of Vallecito Water)
 Company.)

Application No. 51705
 Filed February 13, 1970

Brobeck, Phleger and Harrison, by Robert N. Lowry,
 for applicants.

Frederick R. Schumacher, for Suburban Water Systems and
 Estate of Camille A. Garnier, deceased, interested
 parties.

Sidney J. Webb, for the Commission staff.

O P I N I O N

In Application No. 51704 Vallecito Water Company seeks
 an order of the Commission authorizing it to issue a note, or
 notes, representing a borrowing of \$500,000, and to issue and sell
 not exceeding 28,749 shares of its common stock at a price equal
 to their par value of \$10 per share. In Application No. 51705
 San Gabriel Valley Water Company, the majority shareholder of

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Vallecito Water Company, requests authority to subscribe for and purchase any or all additional shares of common stock which the latter might issue and offer for sale.

After due notice, a public hearing in the above-entitled matters was held before Examiner Donovan in Los Angeles on March 26, 1970, at the conclusion of which the matters were taken under submission subject to receipt of audited 1969 financial statements of San Gabriel Valley Water Company, which statements are now on file. The Commission has received no protests in the proceedings.

Applicants are California corporations engaged in furnishing water service in portions of Los Angeles County. In addition, San Gabriel Valley Water Company operates in portions of San Bernardino County. San Gabriel Valley Water Company and Vallecito Water Company report total 1969 operating revenues of \$4,109,625 and \$389,700, respectively. Applicants' reported assets and liabilities as of December 31, 1969, are summarized as follows:

	<u>San Gabriel Valley Water Company</u>	<u>Vallecito Water Company</u>
<u>Assets</u>		
Utility plant less reserves	\$15,730,163	\$2,699,405
Current assets	1,529,296	121,630
Other assets	<u>556,314</u>	<u>17,342</u>
Total	<u>\$17,815,773</u>	<u>\$2,838,377</u>
<u>Liabilities</u>		
Common stock	\$ 2,400,000	\$ 383,320
Preferred stock	1,262,500	-
Capital surplus	175,464	42,530
Retained earnings	1,256,907	66,259
Long-term debt	7,960,000	32,500
Current liabilities	1,651,518	878,938
Advances for construction	1,735,759	1,023,813
Other deferred credits	26,800	4,344
Contributions in aid of construction	<u>1,346,825</u>	<u>406,673</u>
Total	<u>\$17,815,773</u>	<u>\$2,838,377</u>

The major item included in current liabilities of Vallecito Water Company consists of notes payable totalling \$571,459. The record shows that Security Pacific National Bank has recovered judgments on \$500,000 aggregate principal amount of the outstanding notes, the proceeds having been applied to capital improvements, and that said judgments aggregated \$563,822.81.

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including principal, costs and interest. For the purpose of providing Vallecito Water Company with \$50,000 of urgently needed funds, San Gabriel Valley Water Company supplied said amount as evidenced by a short-term note dated December 24, 1969.

Vallecito Water Company proposes to borrow \$500,000 from Bank of America National Trust and Savings Association, and to sell 28,749 shares of its \$10 par value common stock for \$287,490 cash. The company contemplates applying the proceeds to the following:

Judgments obtained by Security Pacific National Bank on three notes totalling \$500,000 in principal amount	\$563,822.81
Past due and current refunds on advances for construction	142,690.00
Promissory note issued to San Gabriel Valley Water Company	50,000.00
Interest on any one or more of the foregoing judgments or notes	<u>30,977.19</u>
Total	<u>\$787,490.00</u>

The \$500,000 borrowing will be represented by a note, or notes, maturing no later than June 30, 1973, and bearing interest payable quarterly on the basis of 1% over the bank's prime rate prevailing from time to time. Prior to advancing any of the \$500,000, the bank requires the utility to obtain \$287,490 minimum new capital from its stock offering.

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As added on or about April 12, 1966, Article Six of Vallecito Water Company's Articles of Incorporation reads as follows:

"Six: Each shareholder of this corporation shall be entitled to full pre-emptive or preferential rights, to subscribe for or purchase his proportional part of any shares which may be issued at any time by this corporation."

The company proposes to issue a transferable warrant to each holder of record of its 38,332 outstanding shares. The warrants will represent the right to subscribe for the purchase, at the price of \$10 per share, of three shares of common stock for each four shares owned by the shareholder as of the record date. Transferable fractional warrants will be issued on the same basis, which warrants will be exercisable only when accumulated to represent the right to subscribe for the purchase of one or more full shares of common stock. In the event that less than all the warrants are exercised, the resulting unsubscribed shares of common stock will be offered pro rata successively at \$10 per share to such persons or entities as have theretofore fully exercised their rights to subscribe by use of warrants for full shares. San Gabriel Valley Water Company has agreed to purchase all unsubscribed stock at a price of \$10 per share.

After consideration the Commission finds that:

1. The proposed stock and note issues are for proper purposes.
2. Vallecito Water Company has need for funds from external sources for the purposes set forth in these proceedings.
3. The money, property or labor to be procured or paid for by the issue of the securities herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for note issue proceeds, are not, in whole or in part, reasonably chargeable to operating expenses or to income.
4. San Gabriel Valley Water Company is financially able to purchase its full allotment of the proposed issue of Vallecito Water Company common stock, as well as any stock not subscribed and purchased by others entitled thereto.

On the basis of the foregoing findings we conclude that the applications should be granted. In issuing our order herein, we place Vallecito Water Company 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 it should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of the company's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

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O R D E R

IT IS ORDERED that:

1. Vallecito Water Company may issue warrants therefor and issue and sell not exceeding 28,749 additional shares of its common stock, at the price of \$10 per share, under the plan set forth in Application No. 51704.

2. Vallecito Water Company may issue warrants to San Gabriel Valley Water Company for the latter's full preemptive right, and may sell to the latter the shares of common stock represented by said warrants as well as any additional shares of such common stock which are not purchased by others entitled to purchase the same.

3. San Gabriel Valley Water Company may subscribe for and purchase any or all additional shares of common stock which may be issued and offered for sale by Vallecito Water Company.

4. Vallecito Water Company may borrow not exceeding \$500,000 from Bank of America National Trust and Savings Association, and may issue its note, or notes, therefor with a maturity, or maturities, not beyond June 30, 1973. The borrowing shall be upon the same, or substantially the same, terms and conditions set forth in Exhibits Nos. 4 and 5, and the note, or notes, shall be in the same form, or in substantially the same form, as

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Exhibit No. 6, said exhibits constituting a part of the record in these proceedings.

5. Vallecito Water Company shall apply the proceeds to be derived from the stock and note issues herein authorized to the purposes set forth in these proceedings, provided that only note issue proceeds may be applied to a purpose, in whole or in part, reasonably chargeable to operating expenses or to income, and to repaying the \$125,000 note previously authorized by this Commission.

6. Vallecito Water Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

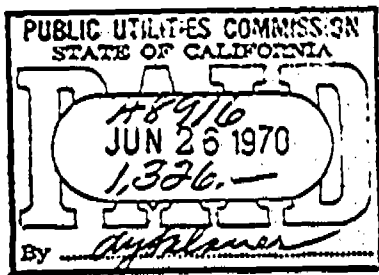
7. Any authority herein granted and not exercised will expire on October 31, 1970.

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8. This order shall become effective when Vallecito Water Company has paid the fees prescribed by Sections 1904(b) and 1904.1 of the Public Utilities Code, which fees are \$750 and \$576, respectively, amounting to a total of \$1,326.

Dated at San Francisco, California,
this 21st day of APRIL, 1970.

Augusta
President
J. B. [illegible]
[illegible]
Vernon L. Sturgeon
Commissioners



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