

LSC

Decision No. 84636

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DIAMOND BAR WATER)
COMPANY for authority to issue)
promissory notes and to issue)
common and preferred stock.)

Application No. 55703
(Filed May 21, 1975)

O P I N I O N

Diamond Bar Water Company seeks authority to issue \$1,000,000 aggregate principal amount of its promissory notes, and to issue and sell \$600,000 aggregate par value of its common and preferred stock in the respective amounts of \$400,000 and \$200,000.

Applicant is a subsidiary of Transamerica Development Company. The utility is a California corporation engaged in furnishing water service at Diamond Bar, which is located about three miles southwesterly of the City of Pomona, Los Angeles County. For the year 1974, the company reports gross operating revenues and net income amounting to \$750,896 and \$52,758, respectively.

The utility reports that on December 31, 1974, it served 4,841 metered active service connections, 20 private fire connections and 556 public fire hydrants. Its reported assets and liabilities as of the same date are as follows:

| <u>Assets</u> | |
|---------------------|---------------------------|
| Utility plant - net | \$4,325,268 |
| Other assets | <u>255,599</u> |
| Total | <u><u>\$4,580,867</u></u> |

Liabilities

| | |
|--------------------------------------|--------------------|
| Common stock | \$2,600,000 |
| Earned surplus (deficit) | (495,601) |
| Notes payable to parent company | 785,000 |
| Advances for construction | 1,327,778 |
| Contributions in aid of construction | 134,163 |
| Other liabilities | <u>229,527</u> |
| Total | <u>\$4,580,867</u> |

The company anticipates adding 341 metered services to its system in 1975, 341 in 1976 and 337 in 1977. The estimated cost for the acquisition and installation of facilities to service its area adequately, other than installations subject to the main extension rule, is \$1,301,200 itemized in Exhibit B attached to the application.

Applicant desires to obtain funds to finance, in part, an estimated \$1,301,200 cost of acquisition and installation of facilities and repaying an estimated \$410,000 of advances for construction as they become due. For such purposes the utility would obtain \$1,000,000 over a three-year period through the issuance of notes and \$600,000 from the issuance and sale to its parent corporation of 4,000 shares of its \$100 par value common stock and 2,000 shares of its \$100 par value 6% cumulative preferred stock.

The new notes would be in favor of the utility's parent, and would bear interest payable annually at the rate of 1% over the Bank of America National Trust and Savings Association's prevailing prime rate existing from time to time.

Applicant's capitalization percentages at December 31, 1974, and estimated for the end of each of the following three years after giving effect to the proposed financing as presented in Exhibit C attached to the application, are as follows:

| | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> |
|---------------------------|---------------|---------------|---------------|---------------|
| Notes payable | 18.6% | 21.0% | 28.9% | 30.5% |
| Advances for construction | <u>31.5</u> | <u>35.4</u> | <u>30.1</u> | <u>28.9</u> |
| Total debt | <u>50.1</u> | <u>56.4</u> | <u>59.0</u> | <u>59.4</u> |
| Common stock | 61.7 | 55.3 | 52.8 | 51.2 |
| Preferred stock | -0- | -0- | -0- | 3.4 |
| Earned surplus (deficit) | <u>(11.8)</u> | <u>(11.7)</u> | <u>(11.8)</u> | <u>(14.0)</u> |
| Total equity | <u>49.9</u> | <u>43.6</u> | <u>41.0</u> | <u>40.6</u> |
| Total capital | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

After consideration the Commission finds that:

1. Applicant is a public utility operating under the jurisdiction of this Commission.
2. Applicant is a wholly owned subsidiary of Transamerica Development Company.
3. Applicant's reported capital structure at December 31, 1974, consisted of 50.1% debt (including advances for construction) and 49.9% equity.
4. Applicant proposes to issue securities which will enable it to maintain a capital structure approximating 60% debt and 40% equity.
5. The proposed stock and note issues would be for proper purposes.
6. The money, property or labor to be procured or paid for by the securities 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.

On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. 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 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 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.

O R D E R

IT IS ORDERED that:

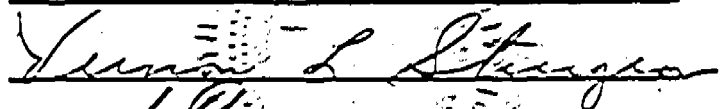
1. Diamond Bar Water Company, on or after the effective date hereof and on or before December 31, 1977, for the purposes specified in this proceeding, may issue and sell, at par for cash, not exceeding 4,000 shares of its \$100 par value common stock and 2,000 shares of its \$100 par value preferred stock, and may issue promissory notes in the aggregate principal amount of not exceeding \$1,000,000, the latter to be in substantially the same form as Exhibit E attached to the application.
2. Diamond Bar Water Company shall continue to maintain a capital structure consisting of at least 40% equity where advances for construction are included in debt.
3. Diamond Bar 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.

4. This order shall become effective when Diamond Bar Water Company has paid the fees prescribed by Sections 1904(b) and 1904.1 of the Public Utilities Code, which fees are \$2,000 and \$1,200, respectively, or a total of \$3,200.


Dated at San Francisco, California, this 8th day of July, 1975.



President



Commissioners



Commissioners

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

