

ORIGINAL

Decision 82 01 72 JAN 19 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )	
WATER COMPANY to issue not exceeding )	Application 61082
100,000 shares of its Common Stock, )	(Filed November 27, 1981)
\$5 par value, pursuant to its )	
Dividend Reinvestment Plan. )	

O P I N I O N

Southern California Water Company (SoCal Water) requests authority under Public Utilities (PU) Code Section 818 for the following:

1. To issue and sell up to 100,000 shares of its authorized but unissued Common Stock, \$5 par value, to participants in SoCal Water's new Dividend Reinvestment Plan (Plan) in accordance with the federal Economic Recovery Tax Act of 1981 (ERTA) Section 321 which went into effect January 1, 1982 and
2. To use the proceeds from the sale for the reimbursement of SoCal Water's capital expenditures.

This decision grants SoCal Water the authority to issue and sell up to 100,000 shares of its authorized but unissued Common Stock, \$5 par value, under a new Plan made possible by the enactment of ERTA which went into effect January 1, 1982. Only qualified stockholders of record may participate in the Plan through the reinvestment of stock dividends in additional shares of stock, thereby providing the stockholder with income tax savings and SoCal Water with a new supply of funds for capital investments.

Notice of the filing of the application appeared on the Commission's Daily Calendar of December 1, 1981. No protests have been received.

SoCal Water, a California corporation, operates as a regulated public utility engaged principally in the sale and distribution of water in portions of 11 counties in California. SoCal Water also renders electric service in the vicinity of Big Bear Lake in San Bernardino County.

For the 12 months ended September 30, 1981, SoCal Water reports it generated total operating revenues of \$42,106,059 and net income of \$4,012,632 shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A is SoCal Water's Balance Sheet as of September 30, 1981 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$121,238,000
Other Investments	558,000
Current Assets	10,525,000
Deferred Charges	754,000
Total	<u>\$133,075,000</u>
 <u>Liabilities and Equity</u>	
Common Equity	\$ 31,233,000
Preferred Stock	11,570,000
Long-Term Debt	34,654,000
Current Liabilities	19,537,000
Advances and Contributions	36,081,000
Total	<u>\$133,075,000</u>

In its application, SoCal Water alleges that ERTA under Section 321 provided for an amendment to Internal Revenue Code Section 305(e) which became effective January 1, 1982. Under this amendment, provision was made to provide a substantial tax advantage to those shareholders of a qualified public utility who elect to receive the dividends on their stock in additional shares of common stock rather than to receive them in cash. Under the provisions of ERTA, stock issued under Section 305(e) will not be taxed as a dividend when received but will be taxed on a capital gains basis if the shares are sold after one year.

SoCal Water states that through operation of the Plan, it can issue additional common equity at a cost substantially less than through a public offering through underwriters. Additionally, it wishes to permit its common shareholders to realize the benefits of this change in the federal income tax law by instituting the Plan, thereby satisfying the requirements of Section 305(e).

The proposed Plan applies to all common shareholders regardless of whether or not they qualify for the tax benefits under ERTA Section 305(e). Under the Plan, a common shareholder may elect to receive dividends in cash or in the form of common stock issued by SoCal Water. The shareholder may apply all or part of his dividend to purchase stock.

The number of shares issued in lieu of a cash dividend is determined as if the participating shareholders had purchased

shares with their cash dividends. The price deemed paid for these shares will be the stock's fair market value during the period immediately before distribution. This value will be determined under regulations prescribed by the Secretary of the United States Treasury Department for purposes of qualifying the stock dividends for special treatment under ERTA. In the absence of these regulations, the fair market value of the stock will be determined by the average of the daily bid and asked prices of SoCal Water's common stock as reported in the Western Edition of The Wall Street Journal for the period of the last three days on which the stock was traded immediately preceding the dividend payment date, or if not so reported, the average of the closing bid and asked prices as reported by the National Association of Securities Dealers Automated Quotes. No commission or service charge will be payable by the participants in connection with the issuance of shares under the Plan attached to the application as Exhibit C.

Under the Securities Act of 1933, SoCal Water will register the shares issued under the Plan with the Securities and Exchange Commission.

SoCal Water has reserved 100,000 of its authorized but unissued common stock for issuance under the Plan during the period January 1, 1982 through December 31, 1985. SoCal Water proposes to issue up to 100,000 shares of its common stock, during the above period, under the provisions of the Plan.

The purpose for which the common shares will be issued is the reimbursement of moneys actually expended from income, or from other moneys in the SoCal Water's treasury, for construction, completion, extension, or improvement of its facilities.

SoCal Water's capital ratios as of September 30, 1981, adjusted to give effect to the proposed application to issue and sell up to 100,000 shares of its common stock under the Plan at an estimated sale price of \$11.50 per share and expected to produce net proceeds of \$1,150,000 or approximately \$287,500 per year over the next four years, are as follows:

	<u>September 30, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	40.9%	40.8%
Short-Term Debt	10.2	10.2
Total Debt	<u>51.1</u>	<u>51.0</u>
Preferred Stock	13.4	13.3
Common Equity <u>1/</u>	<u>35.5</u>	<u>35.7</u>
Total	100.0%	100.0%

1/ Includes only the first year's estimated proceeds from the sale of common stock under the Plan.

SoCal Water's construction budget for calendar years 1981 and 1982 amount to a total of \$13,435,000 shown in Exhibit B attached to the application and summarized as follows:

<u>Water</u>	<u>1981</u>	<u>1982</u>
General (Water Supply, Distribution Plant, etc.)	\$3,352,500	5,538,400
New Business	3,164,500	3,407,200
Blankets (Meters, Services, etc.)	1,483,000	1,583,400
Less: Advances and Contributions	(2,950,000)	(3,105,000)
<u>Electric Net of Advances</u>	<u>425,000</u>	<u>536,000</u>
Total	<u>\$5,475,000</u>	<u>\$7,960,000</u>

The Commission's Revenue Requirements Division has reviewed SoCal Water's 1981 and 1982 construction program and has concluded that the program is necessary. No objection has been taken to the proposed security issue specified in the application. The Division reserves the right to reconsider the reasonableness of any specific program and construction expenditure in future rate proceedings.

The Division has reviewed the application and has concluded that the proposed sale and issuance of SoCal Water's authorized but unissued common stock under the Plan is for a proper purpose. At SoCal Water's request, authority should be expedited so that those participating under the Plan will not lose their first-quarter dividends under ERTA which became effective on January 1, 1982.

Findings of Fact

1. SoCal Water, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. The proposed issuance and sale of up to 100,000 shares of SoCal Water's Common Stock, \$5.00 par value, under its new Plan would be for a proper purpose.
3. The issuance and sale of up to 100,000 shares of SoCal Water's common stock to satisfy its obligation to those of its common shareholders who have elected to receive stock dividends in lieu of cash dividends is for a proper purpose.

4. The money, property, or labor to be procured or paid for by the proposed sale of common stock under the Plan is reasonably required for the purpose specified in the application.

5. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The proposed common stock issue is for a lawful purpose and the money, property, or labor to be obtained by it is required for this purpose. Proceeds from the common stock issue may not be charged to operating expenses or income.

The number of shares outstanding, the total par (stated) value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of the utility's stock, or property, nor does it indicate the amounts to be included in ratesetting procedures.

The following order should be effective on the date of signature to enable SoCal Water to issue its common shares expeditiously provided the utility has paid the fee set in the order which follows.

O R D E R

IT IS ORDERED that:

1. On or after January 1, 1982 and on or before December 31, 1985, Southern California Water Company (SoCal Water) may issue and sell up to 100,000 shares of its authorized and unissued Common Stock, \$5.00 par value, under its Dividend Reinvestment Plan.
2. SoCal Water shall apply the gross proceeds from the sale of its common stock to the purpose set forth in the application.
3. SoCal Water shall file the reports required by General Order Series 24.
4. The authority granted by this order to issue common stock will become effective when SoCal Water pays \$2,150, the fee set by PU Code Section 1904.1.

Dated JAN 19 1982, at San Francisco, California.

JOHN E. BRAYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. CRIMES, JR.  
VICTOR CALVO  
PRISCILLA C. GREW  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

*Joseph E. DeLozier*  
Joseph E. DeLozier, Executive Director

