

Decision 83 97 021 JUL 20 1983

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of SOUTHERN CALIFORNIA WATER )  
COMPANY for an order authorizing )  
it to issue and sell shares of )  
Common Stock pursuant to Southern )  
California Water Company Invest- )  
ment Tax Credit Employee Stock )  
Ownership Plan. )

Application 83-05-13  
(Filed May 6, 1983,  
amended June 8, 1983)

O P I N I O N

Southern California Water Company (SCWC) requests in its application, as amended, authority under Public Utility (PU) Code Sections 816 through 830:

1. To establish the SCWC Payroll Based Tax Credit Employee Stock Ownership Plan (Payroll Plan); and
2. To issue and sell 25,000 shares of its \$5 par value Common Stock, under the Payroll Plan and the SCWC Investment Tax Credit Employee Stock Ownership Plan (ITC Plan).

Summary of Decision

This decision grants SCWC the authority requested in its application.

Notice of the filing of the application and the amendment appeared on the Commission's Daily Calendar of May 10 and June 14, 1983, respectively. No protests have been received.

SCWC is a public utility providing water service in various areas in the Counties of Contra Costa, Imperial, Orange, Sacramento, San Bernardino, Ventura, Santa Barbara, San Luis Obispo, and Lake. The utility also renders a small amount of electric service in the vicinity of Big Bear Lake in San Bernardino County.

SCWC proposes to establish the Payroll Plan and to issue and sell 25,000 shares of its common stock under the Payroll Plan and the ITC Plan.

The Commission by Decision (D.)89133, dated July 25, 1978 in Application (A.)58175, granted SCWC the authority to establish the ITC Plan and to issue and sell 25,000 of its common stock for the basic purpose of providing SCWC's eligible employees with an opportunity of becoming stockholders of SCWC. To achieve this purpose, SCWC implemented the ITC Plan and entered into the Southern California Water Company Investment Tax Credit Employee Stock Ownership Plan Trust Agreement (Trust Agreement) with First Interstate Bank of California, as Trustee (Trustee). SCWC took advantage of the additional one percent of investment tax credit for contributions to an employee trust as provided by the Tax Reduction Act of 1975, as amended, (Tax Reduction Act) by issuing 21,748 shares of such stock pursuant to the ITC Plan. Under the Tax Reduction Act, however, the authority to take additional

investment tax credit for contributions to employee trusts ends with the 1982 tax year. Beginning with the 1983 tax year, the Economic Recovery and Tax Act of 1982 (ERTA) permits a credit on a corporation's federal income tax return in amounts up to a certain specified percentage of a corporation's payroll if such funds are contributed to an employee trust. To take advantage of this tax credit and to further promote employee stock ownership, SCWC proposes to establish the Payroll Plan and to amend the Trust Agreement to conform it to the provisions of the Payroll Plan.

The ITC Plan conforms to the Tax Reduction Act. The Payroll Plan conforms to ERTA and will permit SCWC to take full advantage of the tax credits provided thereby. Under both the ITC Plan and the Payroll Plan, a contribution will be made in common stock, (or cash to be used to purchase common stock), and the common stock, in turn will be allocated to the accounts of all eligible employees. The common stock will be held in an account until the employee retires or otherwise terminates employment following which time it will be distributed to the employee. Neither plan requires any contribution on the part of the employee nor do such plans affect any benefits to which the employee may be entitled under the SCWC's pension plan. Administration costs are primarily paid from dividends. A copy of the ITC Plan and Trust

Agreement were attached as Exhibits B and C, respectively, to A.58175. A copy of the Payroll Plan and the proposed amendment to the Trust Agreement are attached as Exhibits B and C, respectively, to the application, as amended.

Employees eligible to participate in both plans include employees who are age 25 and older and have three or more years of service with the utility.

Under the ITC Plan the basic contribution to the Trustee will equal 1% of the qualified investment in plant additions of SCWC in accordance with the federal tax return to be filed for the 1982 tax year. For subsequent tax years, contributions under the Payroll Plan will be based on prescribed percentages of annual compensation of all covered employees. For purposes of calculating the contributions under both plans, common stock contributed by SCWC shall be valued at the price equal to the average of the mean between the bid and asked prices of the stock on the 20 consecutive trading days preceding the date of transfer or allocation of the stock.

In addition to approving the ITC Plan and its Trust Agreement, D.89133 authorized the issuance of 25,000 shares of common stock under the ITC Plan. To date, SCWC has issued 21,748 shares. The utility anticipates that the remaining shares will be

insufficient for the contribution in respect to the 1982 tax year under the ITC Plan. Consequently, a small portion of the additional authorization of 25,000 shares of common stock requested in this proceeding will be issued under the ITC Plan. SCWC expects to issue the remaining shares under the Payroll Plan.

SCWC estimates that the ITC Plan and the Payroll Plan will cause a reduction in federal income taxes payable of approximately \$343,750 over the next five years and therefore will conserve a like amount of cash which would be used for the construction, completion, extension or improvement of its facilities. SCWC states that the ITC Plan and the Payroll Plan will benefit employees. The plans also benefit ratepayers by increasing the amount of cash which would be made available for financing SCWC's construction program.

SCWC's capital ratios as of December 31, 1982 and as adjusted to give effect to the proposed issuance of 25,000 shares of Stock, assuming net proceeds of \$15.00 per share are summarized as follows:

<u>Component</u>	<u>December 31, 1982</u>	<u>As Adjusted</u>
Long-Term Debt	49%	48%
Bank Loans (Short-term)	5	5
Preferred Stock	12	12
Common Equity	<u>34</u>	<u>35</u>
Total	100%	100%

The Revenue Requirements Division has reviewed the application and concludes that the ITC Plan and the Payroll Plan will provide SCWC with the opportunity to generate additional cash internally. The Division concludes that SCWC's requests are reasonable and should be granted.

Findings of Fact

1. SCWC is a California corporation providing water and electric public utility service subject to the jurisdiction of this Commission.
2. The proposed Payroll Plan and Trust Agreement would be for proper purposes and would not be adverse to the public interest.
3. The proposed issue and sale of 25,000 shares of common stock under the Payroll Plan and the ITC Plan would be for proper purposes.
4. SCWC has need for the funds for the purposes set forth in this proceeding.
5. The money, property, or labor to be procured or paid for by the proposed equity securities issue is reasonably required for the purposes specified in the application. Proceeds from the security issue may not be charged to operating expenses or to income.
6. There is no known opposition to this proceeding 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.

SCWC requests this order to be made effective on the date of signature to enable it to proceed with the implementation of its ITC Plan and the Payroll Plan, and to issue its common stock expeditiously.

In issuing this order, we place SCWC 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 SCWC'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. Southern California Water Company (SCWC) may execute and deliver documents necessary to establish the Southern California Water Company Payroll Based Tax Credit Employee Stock Ownership

Plan (Payroll Plan), including the proposed amendment to the Southern California Water Company Investment Tax Credit Employee Stock Ownership Plan Trust Agreement between SCWC and First Interstate Bank of California as Trustee.

2. SCWC may issue and sell from time to time up to 25,000 shares of its \$5 par value common stock in addition to the shares authorized by D.89133, to be offered to the Trustee of the Southern California Water Company Investment Tax Credit Employee Stock Ownership Plan (ITC Plan) or the Payroll Plan at prices to be determined in the manner described in Exhibit B attached to the application in this proceeding.

3. SCWC shall use the net proceeds derived from the issuance and sale of the common stock for the purpose of the construction, completion, extension, or improvement of its facilities.

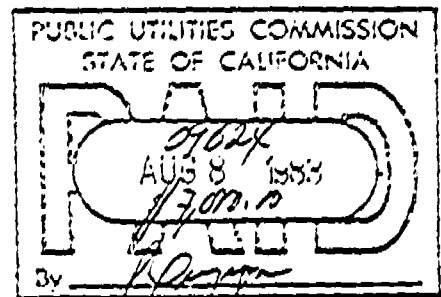
4. On or before the 25th day of the month following each calendar quarter, SCWC shall file with the Commission a statement for the preceding quarter showing the number of shares of common stock purchased under either the Payroll Plan or the ITC Plan, the gross proceeds received, and the expenses incurred by it in connection with the issue and sale of common stock. These filings shall be in lieu of reports required under General Order Series 24.



5. The authority granted by this order to issue stock will become effective when SCWC pays \$750, the fee set by the PU Code Section 1904.1. In all other respects this order is effective today.

Dated JUL 20 1983, at San Francisco, California.

LEONARD M. GRIZES, JR.  
President  
VICTOR CIENTO  
PRISCILLA J. CREW  
DONALD VELL  
WILLIAM T. BAGLEY  
Commissioners



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

*[Signature]*  
Joseph E. Bodovitz, Executive Director

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