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Decision No. 88431 JAN 31 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of METROPOLITAN)
WATER COMPANY to issue stock)
and debentures.)

Application No. 57638
(Filed October 19, 1977)

O P I N I O N

Metropolitan Water Company (Metropolitan) requests authorization from the Commission (a) to issue and sell up to 200 shares of its \$500 par value capital stock having an aggregate par value of \$100,000, and (b) to issue and sell seven-year convertible promissory notes not exceeding an aggregate principal amount of \$200,000.

Metropolitan is a California corporation operating a public utility water system which provides service to approximately 750 customers in the Oak Park area of Ventura County. By Decision No. 67845, dated September 15, 1964 in Application No. 45981, the Commission granted a certificate of public convenience and necessity to the company to serve 2,850 acres comprising the Oak Park area initially owned by Metropolitan Development Co. (Parent), the applicant's sole stockholder. Service was restricted to an area of 246 acres until the issuance of Decision No. 85692, dated April 13, 1976, in Application No. 45981, wherein the service area was extended to 2,850 acres after a finding by the Commission that Metropolitan had the financial ability, resources, and capacity to provide service to its entire certificated area.

For the year ended December 31, 1976, Metropolitan reported total operating revenues of \$133,399, net income of

\$17,506 and depreciation expense totalling \$13,326. The balance sheet on December 31, 1976 is attached to the application as part of Exhibit B and is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net utility plant	\$588,262
Current assets	23,471
Total	<u>\$611,733</u>
 <u>Liabilities and Capital</u>	
Common stock, \$500 par value	\$307,500
Accumulated deficit	(81,019)
Long-term debt	45,000
Advances from Parent	62,450
Advances for construction	264,109
Current liabilities	13,693
Total	<u>\$611,733</u>

Metropolitan states that the Parent plans to build sixty townhouse units and an estimated 500 new dwelling units per year following 1977, all within the company's service area. The utility estimates that main extension contracts amounting to \$54,000 will be issued in 1977 to provide service to the townhouses and that additional contracts aggregating \$518,000 will be issued to the Parent for water service facilities to be installed in 1978 and 1979.

Metropolitan anticipates that approximately \$300,000 will be required to construct supporting plant consisting of a one million gallon water tank, a 10-inch transmission main and backbone pipelines. To obtain needed cash, the utility proposes to issue and sell to its Parent 200 shares of capital stock, at par, for a total sum of \$100,000 and \$200,000 aggregate principal amount of seven-year convertible promissory notes bearing interest at the rate of 7% per annum. The securities would be issued and sold from time to time but not after December 31, 1978. An additional reservoir and appurtenances scheduled for construction in 1979 at an estimated cost of \$450,000 would be financed by

the sale of securities to be made the subject of a later application.

Interest on the proposed notes would be payable quarterly and if net earnings were insufficient to pay interest, unpaid quarterly payments would not thereafter be a liability of Metropolitan nor be cumulative as a liability. The notes would be convertible by the holder at any time into capital stock at a price equivalent to par value, namely, \$500 per share.

Based on information contained in the application, Metropolitan's pro forma source and application of funds for 1978, reflecting the proposed financing, is summarized as follows:

<u>Year 1978</u>	
<u>Source of Funds</u>	<u>Amount</u>
Revenues	\$273,600
Sales of securities to Parent	300,000
Advances for construction	259,000
Total	<u>\$832,600</u>
<u>Use of Funds</u>	
Plant additions	\$559,000
Expenses ^{1/}	212,220
Main extension refunds	61,192
Increase in working capital	188
Total	<u>\$832,600</u>

^{1/} Includes interest and taxes; excludes depreciation.

Section A.2.b. of the Uniform Water Main Extension Rule limits further expansion without authorization of the Commission whenever the outstanding advance contract balances exceed 50% of total capital. In this instance, the proportion of advances in

Metropolitan's capital structure at the end of 1978 would be about 47% after giving effect to the financing proposed herein as indicated in the following summary:

<u>Component</u>	<u>Amount</u>	<u>Percent</u>
Debt	\$ 307,450	25.22%
Advances for construction	569,917	46.76
Common stock equity	341,481	28.02
Total	<u>\$1,218,848</u>	<u>100.00%</u>

The Utilities Division has reviewed the application and concurs with the Finance Division's conclusion that the proposed financing is necessary to implement the utility's construction program. However, authorization of the financing proposed herein should not be construed as precluding a further determination of the reasonableness of construction expenditures in any future rate proceeding.

After consideration the Commission finds that:

1. The proposed stock and note issues are for proper purposes.
2. Metropolitan has need for external funds for the purposes set forth in the application.
3. The money, property or labor to be procured or paid for by the stock and note issues 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.

There is no known opposition to the application and there is no reason to delay granting the authority requested. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The authorization herein granted is for the purpose of this proceeding only and is not to be construed 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. Metropolitan Water Company, on or after the effective date hereof and on or before December 31, 1978, may issue and sell not exceeding 200 shares of its \$500 par value common stock upon the terms set forth in the application.

2. Metropolitan Water Company, on or after the effective date hereof and on or before December 31, 1978, may issue and sell not exceeding \$200,000 aggregate principal amount of its 7% convertible promissory notes upon the terms described in the application.

3. For the purpose of exchanging and retiring said notes upon conversion, Metropolitan Water Company may issue such number of shares of its common stock as may be required, but not exceeding an aggregate of 400 shares.

4. Metropolitan Water Company shall apply the proceeds from the sale of said securities to the purposes referred to in the application.

5. Metropolitan 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.

6. This order shall become effective when Metropolitan Water Company has paid the fees prescribed by Sections 1904(b) and 1904.1 of Public Utilities Code, which fees are respectively \$400 for the notes and \$200 for the common stock, or a total of \$600.

Dated at San Diego, California, this 31st day
of JANUARY, 1978.

Robert Balmain
President
William Spence Jr.

Richard D. Gould
Vernon L. Sturgeon
Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

