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Decision No. 89133 JUL 25 1978

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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)
implement and to issue and sell)
shares of Common Stock pursuant to)
Southern California Water Company)
Investment Tax Credit Employees)
Stock Ownership Plan.)

Application No. 58175
(Filed June 27, 1978)

O P I N I O N

Southern California Water Company (SCWC) requests an order from the Commission authorizing it to implement the scheme known as Southern California Water Company Investment Tax Credit Employees Stock Ownership Plan (ESOP). SCWC also requests authority to issue and sell 25,000 shares of its \$5 par value common stock in accordance with the ESOP.

SCWC is a public utility providing water service in various areas in the counties of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino and Ventura. The company also renders electric service in the vicinity of Big Bear Lake in San Bernardino County. In addition, SCWC owns all of the issued and outstanding stock of California Cities Water Company (Cal Cities), which utility provides public utility water service in the counties of Los Angeles, Orange, San Bernardino, Santa Barbara, San Luis Obispo and Lake. The two companies plan to merge with SCWC as the surviving corporation, and a request for authority to accomplish the merger was filed on May 26, 1978 in Application No. 58108. Authorization for the merger, to be effective for accounting purposes as of June 30, 1978, was granted by Decision No. 89131, dated July 25, 1978.

In this application, SCWC proposes to establish the ESOP effective as of January 1, 1977 for the basic purpose of providing the utilities' eligible employees with an opportunity of becoming stockholders of SCWC. To achieve this purpose SCWC

intends to take advantage of the additional Investment Tax Credit provided by the Tax Reduction Act of 1975, as amended by the Tax Reform Act of 1976, each year during which the additional Investment Tax Credit is available.

The ESOP conforms to the Tax Reduction Act of 1975 which allows an additional one percent of Investment Tax Credit to be deducted on SCWC's federal income tax return if the funds are contributed to an employee trust. A contribution will be made in SCWC common stock, (or cash to be used to purchase SCWC company stock), and the stock, in turn, will be allocated to the accounts of all eligible employees. Employees eligible to participate in the ESOP include employees who are age 25 or older, who have three or more years of service with the company or with Cal Cities, and who are not covered under a collective bargaining agreement.^{1/} The 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. The ESOP does not require any contribution on the part of the employee and does not affect any benefits to which the employee may be entitled under the company's pension plan. Administration costs are primarily paid from dividends and as allowed by the Tax Reduction Act of 1975. A copy of the ESOP is attached to the application as Exhibit B.

Pursuant to the terms and conditions of the ESOP, SCWC has entered into a Trust Agreement with United California Bank (Trustee), a copy of which is attached to the application as Exhibit C. The basic contribution to the Trustee will equal one percent of the qualified investment of SCWC for the calendar year. For the purposes of calculating the contribution, common stock contributed by SCWC shall be valued at the price equal to the average of the means 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.

^{1/} SCWC has informed the staff that approximately 40 of its 330 employees are covered by collective bargaining agreements.

SCWC estimates that the proposed ESOP will cause a reduction in federal income taxes payable of approximately \$387,500 over the next five years. With the reduction in federal income taxes payable, SCWC will conserve a like amount of cash which would be used for the construction, completion, extension or improvement of its facilities. Estimated plant additions eligible for Investment Tax Credit for the year 1977 is \$6,000,000 and the anticipated construction outlays for 1978 amount to \$6,400,000. SCWC states that the ESOP will benefit employees and also ratepayers by increasing the amount of cash which would be made available for financing the company's construction program.

SCWC's consolidated capital ratios as of April 30, 1978 and as adjusted to give effect to the proposed issuance of 25,000 shares of common stock, assuming net proceeds of \$15.50 per share are summarized as follows:

<u>Component</u>	<u>April 30, 1978</u>	<u>As Adjusted</u>
Long-Term Debt	50.0%	49.7%
Bank Loans	6.5	6.4
Preferred Stock	12.6	12.6
Common Equity	<u>30.9</u>	<u>31.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Finance Division of the Commission staff has reviewed the application and concludes that the ESOP will provide SCWC with the opportunity to generate additional cash internally. The Operations Division, after reviewing the proposal in conjunction with the company's construction program, concurs with this conclusion.

After consideration the Commission finds that:

1. The proposed stock issue would be for a proper purpose.
2. SCWC has need for the funds for the purpose set forth in this proceeding.
3. The Employees' Stock Ownership Plan would not be adverse to the public interest.
4. The money, property or labor to be procured or paid for by the stock herein authorized is reasonably required for the purpose specified herein, which purpose is 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. There is no known opposition. A public hearing is not necessary. Because of time commitments related to the ESOP's implementation, SCWC has requested an order effective upon payment of the prescribed fee.

In issuing our order herein, 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 company'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 may execute and deliver documents necessary to establish an Employees' Stock Ownership Plan and a related Trust Agreement.

2. On or after the effective date hereof, Southern California Water Company may issue and sell from time to time up to a maximum of 25,000 shares of its \$5 par value common stock, to be offered to the Trustee of the Employees' Stock Ownership Plan at prices to be determined in the manner described in Exhibit B attached to the application.

3. Southern California Water Company shall use the net proceeds derived from the issuance and sale of said common stock for the purpose of financing construction.

4. On or before the twenty-fifth day of the month following each quarter, Southern California Water Company shall file with the Commission a statement for the preceding quarter showing the number of shares of common stock purchased under the Employees' Stock Ownership 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 No. 24-B.

5. This order shall become effective when Southern California Water Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$775.

Dated at San Francisco, California, this 25th
day of JULY, 1978.



Robert B. [Signature]
President
William [Signature]
[Signature]
[Signature]
[Signature]
Commissioners