

ORIGINAL

Decision 97-03-018 March 7, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

| | |
|---|---------------------------|
| Application of PARK WATER COMPANY) | |
| U-314-W, for authority to issue evi-) | |
| dence of indebtedness - unsecured) | |
| notes in an aggregate principal amount)) | Application 96-11-017 |
| not to exceed \$3,400,000 in exchange) | (Filed November 13, 1996) |
| for outstanding shares of Park Water) | |
| Company common stock.) | |
|) | |

O P I N I O N

Summary of Decision

This decision grants Park Water Company (Park Water), a Class A water utility, the authority requested in Application 96-11-017 (Application).

Park Water requests authority, pursuant to § 816 et seq. of the Public Utilities (PU) Code, to issue its unsecured notes (Notes) in an aggregate principal amount not to exceed \$3,400,000 in exchange for outstanding stock from a limited number of minority shareholders of Park Water.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of November 18, 1996. No protests have been received.

Background

Park Water is a public utility corporation, duly organized under the laws of California, and operates a public utility water system in the southeastern and northeastern sections of Los Angeles County. Park Water has two wholly owned public utility subsidiaries in California: Apple Valley Ranchos Water Company, which operates a public utility water system in and near the town of Apple Valley in San Bernardino County; and Jess Ranch Utilities, Inc., which provides water and sewer services in and

near the town of Apple Valley in San Bernardino County. Park also has a wholly owned public utility subsidiary in Montana: Mountain Water Company, which provides water service within and around the communities of Missoula and Superior, Montana.

Park Water's unconsolidated Income Statement (excludes subsidiaries) for the nine months ended September 30, 1996, shows total operating revenues of \$10,871,054 and net income of \$24,117.

Park Water's unconsolidated Balance Sheet (excludes subsidiaries) as of September 30, 1996, are presented below as recorded and as adjusted to give pro forma effect to the proposed repurchase of issued and outstanding common stock:

| <u>Assets</u> | <u>Amount</u> | <u>Pro Forma</u> |
|---|------------------|------------------|
| Net Utility Plant | \$17,420,710 | \$17,420,710 |
| Investment and Fund accounts | 44,031,074 | 44,031,074 |
| Current and Accrued Assets | 13,313,455 | 13,313,455 |
| Deferred Debits | <u>2,935,272</u> | <u>2,935,272</u> |
| Total Assets | \$77,700,511 | \$77,700,511 |
| | | |
| <u>Liabilities and Equity</u> | <u>Amount</u> | <u>Pro Forma</u> |
| Corporate Capital & Surplus | \$16,147,254 | \$12,747,254 |
| Long-Term Debt | 46,127,489 | 49,527,489 |
| Current & Accrued Liabilities | 5,121,322 | 5,121,322 |
| Deferred Credits | 7,987,924 | 7,987,924 |
| Contributions in Aid of Construction | <u>2,316,522</u> | <u>2,316,522</u> |
| Total Liabilities and Equity | \$77,700,511 | \$77,700,511 |

Note: Long-term debt includes approximately \$21 million of advances from associated companies.

Description of Financing and Manner of Issuance

Park Water proposes to issue Notes in an aggregate principal amount not to exceed \$3,400,000. The Notes will be privately placed to a limited number of minority shareholders of Park Water in exchange for their common stock which Park intends to retire. Park anticipates that the form of the Notes will be similar to the form of Note filed as Exhibit B to the Application,

with such changes or additions deemed necessary or appropriate in order to meet current market terms.

Park Water expects the Notes will have a term of 10 years, and that their interest rate will reflect the then market conditions for Notes of that term issued by companies similar to Park Water. The Notes will not be secured by any assets or common stock of Park Water.

Pursuant to several telephone discussions with Park Water and the Water Division, Park Water confirmed that the Notes are expected to bear an interest rate of 7.31%.

Park Water states in the Application that certain of its minority shareholders maybe interested in selling back their shares of common stock to Park Water. Park Water desires to offer to repurchase these shares in exchange for its Notes that will have a value equal to the fair market value of the shares repurchased. Park Water has engaged Duff & Phelps, an outside appraisal and rating firm to determine a fair market value of these minority share interests. A fair market value of \$811 per share has been recommended.

Park Water's repurchase offer will give it the option to pay cash for fractional shares or for very small numbers of shares to avoid the unreasonable administrative burden of issuing and making annual payments on Notes of small denominations.

Park Water anticipates offering to repurchase the common stock owned by approximately 10 shareholders, which will not include H.H. Wheeler, Jr., the controlling shareholder of Park Water. Park Water anticipates that it will not repurchase more than 15.0% of its currently outstanding common stock, and that the maximum fair market value of repurchased common stock will not exceed \$3.4 million, based on the appraisal received from the valuation firm retained by Park Water. Park Water will not know the exact amount of common stock to be repurchased or Notes to be issued until the expiration of its repurchase offer.

PU Code § 818 states:

No public utility may issue stocks and stock certificates, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that, except as otherwise permitted in the order in case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Park Water's request to issue the Notes in exchange for outstanding shares of Park Water's common stock raises no questions that should dissuade us from giving favorable consideration to the matter. For purposes of this Application and pursuant to PU Code § 818, we will approve Park Water's intended issue of its unsecured Notes.

Park Water and its common stockholders are placed on notice that the Commission does not regard the number of common shares outstanding and the total par value of the shares as determining Park Water's allowable return on plant investment. Our authorization is not a finding of the value of Park Water's common stock or property, nor does it indicate the amount to be included in ratemaking proceedings.

Capital Ratios

Park Water states in its supplemental data to the Application that for ratemaking procedures, a consolidated capital Structure for Park Water and its subsidiaries is used.

Accordingly, Park Water and subsidiaries,¹ consolidated capital ratios as of November 30, 1996, are presented below as recorded and as adjusted to give pro forma effect to the proposed transaction:

| | <u>Recorded</u> | | <u>Pro Forma</u> | |
|----------------|-----------------|-------------------|------------------|-------------------|
| | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> |
| | | | | |
| Long-Term Debt | 25,005 | 39.5% | 28,405 | 44.8% |
| Common Equity | <u>38,378</u> | <u>60.5%</u> | <u>34,978</u> | <u>55.2%</u> |
| Total | 63,383 | 100.0% | 63,383 | 100.0% |

Note: The equity shown on the balance sheet and pro forma sheet for the year ending September 30, 1996, consists of Park Water only and does not contain any of its subsidiaries. It also includes approximately \$21 million of long term debt (advances from associated companies) which is not considered in determining the capital structure. All debt is contained on the books of Park Water.

The advances from associated companies are subject to consolidation eliminations and do not appear on the consolidated balance sheet.

Capital structures are normally subject to review in general rate case or cost of capital proceedings. We will not, therefore, make a finding in this decision on the reasonableness of the capital ratios for ratemaking purposes.

¹ Includes Mountain Water Company, a Park Water subsidiary in Montana (methodology has been accepted in general rate case proceedings for Park Water).

Findings of Fact

1. Park Water, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. The proposed issue of Notes is for proper purposes and would not be adverse to the public interest.
3. PU Code § 818 requires Commission authorization for the issue of stocks, bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months.
4. The Commission does not by this decision determine that the capital structure presented herein is necessary or reasonable for ratemaking purposes.
5. There are no proceeds from this Application.
6. There is no known opposition to this Application, and the authority requested should be granted.

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.
3. The proposed debt issue in exchange for outstanding shares of Park Water's common stock is for lawful purposes.

ORDER

IT IS ORDERED that:

1. Park Water Company (Park Water), on or after the effective date of this order is authorized to issue up to \$3,400,000 of its unsecured Notes in exchange for outstanding shares of Park Water's common stock which it intends to retire upon terms and conditions as set forth in or contemplated in Application 96-11-017 (Application) and supplemental data thereto.
2. Park Water may execute and deliver any and all related documents required for completion of the transaction.

3. Within thirty (30) days after the issuance of Park Water's proposed Notes, Park Water shall notify the Water Division of the fact, in writing.

4. The Application is granted as set forth above.

5. This proceeding is closed.

This order is effective today.

Dated March 7, 1997, at San Francisco, California.

P. GREGORY CONLON
President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners