

Decision No. 28793

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER SERVICE COMPANY,)
a corporation, for an order author-)
izing it to issue bonds and serial) Application No. 20497
notes and to mortgage its properties.)

McCutchen, Olney, Mannon & Greene, by John O. Moran,
for applicant.

BY THE COMMISSION:

ORIGINAL

OPINION

In this application the California Water Service Company asks the Commission to enter an order authorizing applicant-

(1) To issue and sell at not less than par and accrued interest, \$10,000,000. of first mortgage 4% bonds, Series B, due May 1, 1961; and

(2) To issue and sell at not less than 98½% of their face value and accrued interest \$550,000. of serial notes bearing interest at rates varying from 1.25% per annum to 4.25% per annum, depending upon the date of maturity; and

(3) To execute and deliver a mortgage of chattels and supplemental indenture pertaining to its bonds and a trust indenture pertaining to its serial notes.

The California Water Service Company is engaged in the business of supplying and distributing water for domestic and industrial purposes in the following localities in the State of California: Redding, Willows, Chico, Oroville, Marysville, Dixon, Port Costa, Martinez(wholesale) Port Chicago(Bay Point), Walnut Creek(wholesale), Concord, Danville, Crockett, Petaluma, South San Francisco, Lomita

Park, Hillsborough(Part), San Mateo, San Carlos, Los Altos, Valona, Redondo Beach,
 Stockton, Livermore, Bakersfield, Visalia, Hanford, Hermosa Beach, /
 and Los Angeles (Belvedere district).

In Application No. 20498 the Bear Gulch Water Company asks permission to sell its public utility water properties to California Water Service Company. The Bear Gulch Water Company is engaged in the business of a public utility water company in, and in the vicinity of, Menlo Park, Atherton, Woodside, Woodside Heights and Portola Woods, all in the County of San Mateo.

The California Water Service Company as of February 29, 1936, reports stocks and bonds outstanding as follows:-

Common stock	\$2,414,200.
Preferred stock-6%	2,961,000.
First mortgage 5% bonds due April 1, 1958	8,738,000.

The California Water Service Company intends to redeem its outstanding \$8,738,000. of 5% bonds. Applicant can at this time redeem said bonds by paying the principal thereof, the accrued interest and a premium of five (5) per cent. The date of redemption has not yet been fixed. The payment of the principal (\$8,738,000.) and the premium (\$436,900.) calls for an aggregate expenditure of \$9,174,900. As shown in Application No. 20498 applicant will expend about \$1,050,000. to acquire the properties and business of Bear Gulch Water Company.

To obtain the funds necessary to carry out its refunding program, the acquisition of the properties of Bear Gulch Water Company and reimburse its treasury because of income invested in its properties, California Water Service Company asks permission to issue, as said, \$10,000,000. of first mortgage 4% bonds, Series B, at not less than their face value and accrued interest, and \$550,000. of 10-year serial notes at not less than 98½% of their face value and accrued interest.

The serial notes mature at the rate of \$55,000.00 per annum. They will be unsecured and will be issued under a trust indenture to be executed to the American Trust Company. The rate of interest and the maturity date of the notes is as follows:-

<u>Numbers</u>	<u>Maturity Date</u>	<u>Rate of Interest per annum</u>
1-55	May 1, 1937	1.25%
56-110	May 1, 1938	1.75%
111-165	May 1, 1939	2.25%
166-220	May 1, 1940	2.75%
221-275	May 1, 1941	3.25%
276-330	May 1, 1942	3.75%
331-385	May 1, 1943	4.00%
386-440	May 1, 1944	4.00%
441-495	May 1, 1945	4.25%
496-550	May 1, 1946	4.25%

The proposed \$10,000,000.00 of first mortgage 4% bonds, Series B, will be dated May 1, 1936 and mature May 1, 1961. The company agrees that, beginning with the year ending April 30, 1947, it will pay into a sinking fund a sum equal to 1/2 of 1% of the maximum aggregate principal amount of all Series B bonds outstanding at any one time. The sinking fund monies may be used to redeem bonds or acquire properties.

In Exhibit three applicant reports that it has expended for the acquisition of properties the sum of \$1,441,902.72 against which it has issued no bonds or stock. Some of the monies necessary to make these expenditures were obtained from the sale of the Company's properties in Fresno and some from earnings. The \$1,441,902.72 does not include the cost of the Bear Gulch Water Company properties.

The cost of the properties of California Water Service Company, as shown by its books, and the amount it is paying for the properties of Bear Gulch Water Company, less the reserves for accrued depreciation, is about \$15,400,000.00. Exhibit five shows that the two companies in 1935 had available for interest, dividends and surplus the sum of \$899,333.98.

Applicant estimates that through the refunding of its 5% bonds by an issue of 4% bonds it will effect an annual saving of about \$42,000.00. In computing this saving the company charges duplicate interest to unamortized discount and expense and also charges to such discount and expense the premium which it must pay upon the redemption of its 5% bonds. The present unamortized discount and expense is amortized over a period of years to and including 1958, the year in which the 5% bonds mature, were they not called for redemption. The net premium paid on such bonds, the duplicate interest and the expenses of the new issue of bonds are amortized over the life of the 4% bonds. We do not favor the amortization of the duplicate interest. The payment of this interest is a current expense and it should be charged to 1936 income. The unamortized discount and expense on the 5% bonds and the premium paid on such bonds should under our system of accounts be charged to surplus at the time the 5% bonds are redeemed. However, for accounting purposes and convenience, we will modify our accounting requirements and permit applicant to amortize said discount, expense and premium, aggregating \$752,863.00 on or before April 1, 1958. This amortization does not relate to the issue and sale of 4% bonds and in our opinion is not a part of the cost of the money obtained through the issue of said 4% bonds. Our order relieving the company from now charging the \$752,863.00 to surplus is permissive and we reserve the right to modify or revoke it at any time.

Applicant has filed with the Commission a copy ; Exhibit A of its proposed mortgage of chattels and supplemental trust indenture amending its indenture of April 1, 1928, and a copy of its proposed indenture, Exhibit B, defining and providing for the issue of its proposed serial notes. We have considered such instruments and

find the same to be in satisfactory form.

O R D E R

California Water Service Company having applied to the Railroad Commission for permission to issue and sell \$10,000,000.00 of its first mortgage 4% bonds, Series B, due May 1, 1961, and \$550,000.00 of its serial notes, and execute trust indentures, all as more fully set forth in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the aforesaid bonds and notes is reasonably required by applicant for the purposes herein stated, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:-

1. California Water Service Company may, after the effective date hereof and prior to September 1, 1936, execute a mortgage of chattels and supplemental trust indenture substantially in the same form as ^{that} filed in this proceeding as Exhibit A, pertaining to its first mortgage bonds, and a trust indenture substantially in the same form as that filed in this proceeding as Exhibit B, pertaining to its serial notes, provided that the authority herein granted to execute said indentures is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said trust indentures as to such other legal requirements to which they may be subject.

2. California Water Service Company may, after the effective date hereof and prior to September 1, 1936, issue and sell at not less than their face value and accrued interest, \$10,000,000.00 of first mortgage 4% bonds, Series B, due May 1, 1961, and issue and sell at not less than 98 $\frac{1}{2}$ % of their face value and accrued interest, \$550,000.00 of serial notes.
3. California Water Service Company shall use the proceeds, other than accrued interest, which it will obtain from the sale of said bonds and notes, to redeem its outstanding \$8,738,000.00 of first mortgage 5% Series A bonds, to acquire the properties of Bear Gulch Water Company, the transfer of which is authorized by the Commission's decision in Application No. 20498, and to reimburse its treasury because of income invested in its properties. The accrued interest may be used for general corporate purposes.
4. California Water Service Company may amortize, on or before April 1, 1958, the unamortized discount and expense applicable to its outstanding \$8,738,000.00 of first mortgage 5% Series A bonds, and the premium which it may have to pay upon said bonds in order to redeem the same, provided that the Commission reserves the right to revoke or modify the permission hereby granted.
5. The authority herein granted to issue bonds and notes will become effective when California Water Service Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Thousand Four Hundred and Six(\$1,406.00) Dollars, and when California Water Service Company has filed with the Commission a complete copy of the registration statement which it will file with the Securities and Exchange Commission.

6. California Water Service Company shall on or before December 31, 1936 file with the Railroad Commission a statement showing in detail the expenses which it incurred in connection with the issue and sale of the said \$10,000,000.00 of bonds and the said \$550,000.00 of notes.
7. California Water Service Company shall file a report or reports such as are required by the Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.
8. Within thirty(30) days after the execution of the mortgage of chattels and supplemental trust indenture pertaining to the company's first mortgage bonds, and the trust indenture pertaining to the company's serial notes, California Water Service Company shall file with the Commission two certified copies of each of said trust indentures.

DATED at San Francisco, California, this 4th day of May, 1936.

Fee \$ 1,406.⁰⁰/₁₀₀

[Handwritten signature]

Fee # 32624

M. B. Linn
Leon Caldwell
W. J. Linn
W. W. Linn
Frank R. Dewey
 Commissioners.