

Decision No. 22823

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER & TELEPHONE COMPANY,
to issue and sell stock and bonds. }

Application No. 22823

ORIGINAL

Bacigalupi, Elkus & Salinger, by Herbert H. Salinger,
for applicant.

BY THE COMMISSION:

O P I N I O N

California Water & Telephone Company asks permission (a) to issue and sell \$5,650,000 principal amount of its first mortgage bonds, 4% series due 1969, so as to net applicant not less than 101% of the face value thereof (less certain expenses of the underwriters, estimated at \$6,000), together with accrued interest thereon to the date of delivery thereof; (b) to issue and sell \$700,000 par value of its 6% cumulative preferred stock, so as to net applicant not less than 94% of the par value thereof; and (c) to use the proceeds for the purposes hereinafter indicated.

California Water & Telephone Company is a corporation organized and existing under the laws of the State of California. It is engaged in the business of a public utility rendering water service for irrigation, domestic, industrial and public purposes as follows:- In the cities of Chula Vista, National City, Coronado and adjoining territory in the County of San Diego; in the cities of San Marino, San Gabriel and unincorporated territory in Los Angeles County; and in the cities of Monterey, Pacific Grove, Carmel and certain unincorporated areas in Monterey County. The company is also engaged in the business of a public utility, rendering telephone and telegraph

service in the cities of Redlands, Banning, Beaumont, Elsinore, Hemet, Murrietta, Palm Springs, Perris, San Jacinto, Loma Linda, Temecula, Moreno, Yucaipa, and certain unincorporated areas in the counties of Riverside and San Bernardino; also in the cities of San Fernando, Sierra Madre and Monrovia and certain unincorporated areas in Los Angeles County. The company also sells water under a contract, for domestic, irrigation and commercial purposes to the Del Monte Properties Co. in Monterey County.

Applicant reports as of April 30, 1939, the investment in its fixed capital at \$9,513,621.62, segregated as follows:-

General office	\$ 16,772.08
Water divisions	7,580,256.23
Telephone division	1,916,593.31

In addition, its balance sheet shows miscellaneous investments of \$690,766.16, other suspense of \$798,336.25 and construction work in progress of \$135,792.54.

Applicant, under Commission authorization, has issued and outstanding \$2,108,200 of common stock, \$1,800,000 of 6% preferred stock and \$5,650,000 of first mortgage 5% bonds, due September 1, 1965. Its depreciation reserve is reported at \$1,534,192.19 and its earned surplus at \$392,554.32.

Applicant intends to redeem on September 1, 1939 all of its outstanding first mortgage 5% bonds. To obtain funds to pay the \$5,650,000 of bonds, and to pay for new construction, applicant desires permission to issue \$5,650,000 of first mortgage 4% bonds, due June 1, 1969, and \$700,000 of 6% preferred stock. It has entered into an agreement to sell the 4% bonds to Blyth & Co., Inc. and associates at 101% of their face value and accrued interest. It has also entered into an agreement to sell the preferred stock to E.H. Rollins & Sons, Incorporated and associates, at 94% of its par value and accrued dividends to date of delivery. If the bonds and stock are sold at the prices

indicated, applicant will realize from the sale thereof the sum of \$6,364,500.

If applicant redeems its 5% bonds on September 1, 1939, it must pay a premium equal to 5% of the face value of the bonds redeemed, or the sum of \$282,500. This premium, added to the face value (\$5,650,000) of the bonds, calls for an aggregate expenditure of \$5,932,500. In addition, applicant estimates that its expenditures incident to the issue of the bonds and stock will be \$35,000. Deducting the \$5,932,500 and the \$35,000 from the \$6,364,500 leaves a balance of \$397,000 available for new construction. In Exhibit 7 applicant refers to the following proposed additions and betterments:-

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| 1. Additional water supply for Sweetwater District by construction of so-called Unit No. 1 of Lake Boal Project, including infiltration galleries, pumping plant, reservoir and pipe line | \$ 377,250 |
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Alternate Projects

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| 1. Additional water supply for Sweetwater District to the extent of one M.G.D. to be developed at present South Basin Plant of Coronado District. Construction includes pipe lines and pumping plant | 60,000 |
| 2. Converting Manual Telephone offices to automatic operation: | |
| Sierra Madre | 63,000 |
| Elsinore | 15,860 |
| Hemet | 27,575 |
| San Jacinto | 14,345 |
| Perris | 7,920 |
| 3. Additions, Extensions, Replacements and Improvements to Distribution and Transmission facilities: | |
| Monterey Peninsula Division | 46,000 |
| San Gabriel Valley Division | 40,000 |
| Coronado District | 20,000 |
| Sweetwater District | 65,000 |
| 4. Additions, Extensions, Replacements and Improvements to Telephone Exchange Lines and Plant | 60,000 |

Total Alternate Projects \$ 419,700

At the hearing had on this application, applicant was not in a position to advise the Commission definitely which of its proposed construction programs will be carried forward. Because of this situation, the order herein will provide that such stock proceeds as may be available for construction purposes, must be deposited by the company in a special fund and may be expended only for such purposes as are hereafter authorized by the Commission in a supplemental order or orders.

The systems of accounts prescribed by the Commission for water and telephone utilities provide that when bonds are redeemed, the unamortized discount and expense applicable to such bonds shall be charged to surplus or profit and loss. Applicant calls attention to the fact that it now carries on its books unamortized bond discount and expense in the sum of \$290,724.72; that upon the redemption of its 5% bonds it must pay a premium of \$282,500; that upon the sale of its 4% bonds it will receive a premium of \$56,500, which, if deducted from the \$282,500, leaves a net premium of \$226,000, and that this net premium, plus the \$290,724.72, aggregating \$516,724.72, is in excess of its earned surplus. It requests permission to amortize the \$516,724.72 over the period ending September 1, 1965. The testimony shows that because of the bond refunding, applicant may not be required to pay any income tax during 1939. We believe that the \$516,724.72 should in 1939 be reduced by an amount equivalent to the saving in income taxes during 1939 because of the bond refunding. For accounting purposes applicant may amortize the balance over the period ending September 1, 1965. We reserve, however, the right to determine hereafter whether the charges necessary to amortize said discount, expense and premium should be included in the cost of money to applicant.

There was filed at the hearing as Exhibit B, a copy of applicant's proposed supplemental trust indenture. This indenture defines the terms and conditions of its proposed 4% bond issue and modifies the trust indenture heretofore executed by the company in several particulars. We have reviewed this supplemental trust indenture and believe it to be in satisfactory form.

ORDER

California Water & Telephone Company, having asked permission to issue \$5,650,000 of its 4% first mortgage bonds due June 1, 1969, and \$700,000 of its 6% cumulative preferred stock and execute a supplemental trust indenture, a public hearing having been held before Examiner Fankhauser, the Commission having considered the requests of applicant, and it being of the opinion that the money, property or labor to be procured or paid for by the issue of said bonds and said stock, 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 & Telephone Company may issue and sell, on or before October 1, 1939, at 101% of their face value and accrued interest, \$5,650,000 of its first mortgage bonds, 4% Series due 1969, and use the proceeds to pay in part its outstanding \$5,650,000 of first mortgage 5% bonds.
2. California Water & Telephone Company may issue and sell, on or before December 1, 1939, at not less than 94% of its par value and accrued dividends, \$700,000 par value of its 6% cumulative preferred stock, for the purpose of reimbursing its treasury because of income

expended for additions and betterments, and financing the cost of such new construction as may be authorized by the Commission in a supplemental order or orders.

3. California Water & Telephone Company may use not exceeding \$226,000 of the proceeds realized from the sale of said preferred stock to pay the premiums on its outstanding bonds, and not exceeding \$35,000 of said proceeds to pay the expenses incident to the sale of the bonds and preferred stock herein authorized. The remainder of said proceeds shall be deposited in a special fund and expended only for such purposes as the Commission will authorize by a supplemental order or orders.

4. California Water & Telephone Company may execute a supplemental trust indenture in, or in substantially the same form, as the supplemental trust indenture filed in this proceeding on July 5, 1939, as Exhibit B, provided that the authority herein granted to execute a supplemental trust indenture 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 supplemental trust indenture as to such other legal requirements to which said supplemental trust indenture may be subject.

5. California Water & Telephone Company shall keep such record of the issue, sale and delivery of the stock and bonds herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

California Water Telephone
Company Bonds

~~7th~~ ^{pd} Dec 28276 dated 10/4/1935 in
App 20127 - 500,000 ~~bonds~~

~~2nd~~ Dec 29933 dated 7/9/1937 in
App 21147 - 250,000 ~~bonds~~

~~7th~~ ^{pd} Dec 30948 dated 6/4/1938 in
App 21943 - 400,000 ~~bonds~~

5650

W C Farnsworth

6. California Water & Telephone Company shall file with the Railroad Commission within thirty(30) days after the effective date of its registration statement or statements covering said bond and stock issues, filed with the Securities and Exchange Commission, a complete copy of such registration statement or statements, and shall also file with the Railroad Commission two copies of the supplemental trust indenture herein authorized to be executed.

7. California Water & Telephone Company may amortize over the period ending September 1, 1965 the unamortized discount, expense and premium, referred to in the foregoing opinion, provided the Commission reserves the right to determine hereafter whether the charges necessary to amortize said discount, expense and premium should be included in the cost of money to California Water & Telephone Company.

8. The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 11th day of July, 1939.

Robert J. ...
Frank ...
Ray ...
W. ...
Justus J. ...
Commissioners.

FEE PAID ON ORIGINAL APPLICATION

No. { 20177
21142
21943 } Decision No. 28276
29733
30448
Dated 14 day of October 1935
9 day of July 1937
9 day of July 1938

H. M. ...
Secretary of the Commission.
State of California.