

Decision No. 23500

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 authorizing it to issue an additional amount of its First Mortgage Bonds and of its Preferred Stock.

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Application No. 23500

ORIGINAL

BY THE COMMISSION:

O P I N I O N

California Water Service Company has applied to the Railroad Commission for an order authorizing it to issue and sell, at not less than the principal amount and accrued interest, \$432,000 of its first mortgage 4% bonds, Series B, due May 1, 1961, and, at not less than par, \$514,000 of its 6% preferred stock, Series B, for the purpose of reimbursing its treasury, paying indebtedness and financing the cost of additions and betterments.

In a financial statement attached to the application, dated as of April 30, 1940, the company reports its investment in plants and properties, including construction work in progress, at \$19,597,631.08 and its depreciation reserve at \$2,901,665.20, leaving a net investment in the amount of \$16,695,965.88. The statement shows that the company's investment in its properties and assets has been provided primarily through the issue of preferred and common stock and bonds, similar to those now proposed to be issued, in amounts as follows:-

Common stock	\$2,414,200
Preferred stock	2,961,000
Bonds	11,100,000

In addition the company reports outstanding a short term 2% note for \$250,000.

All of the company's outstanding stocks and bonds were issued under authority heretofore granted by this Commission. By

Decision No. 28793, dated May 4, 1936, as amended, the Commission, among other things, authorized the company to issue and sell \$10,000,000 of the first mortgage 4% bonds for the purpose of paying outstanding indebtedness and of reimbursing its treasury because of earnings expended for additions and betterments, prior to January 1, 1936. Thereafter, from time to time, the company was authorized to issue an additional \$1,100,000 of bonds to finance, in part, construction expenditures made subsequent to January 1, 1936, as shown in the following tabulation:-

Net additions and betterments, Jan. 1, 1936 to April 30, 1940		\$1,881,708.84
Construction work in progress, April 30, 1940	\$241,793.77	
Less: Construction work in progress, January 1, 1936	22,198.33	
Less: Estimated value of retirements in progress, April 30, 1940	<u>60,921.78</u>	<u>158,673.66</u>
Sub-total		\$2,040,382.50
Less: Contributions for extensions		<u>21,265.52</u>
Balance		\$2,019,116.98
Proceeds from sale of \$300,000 of bonds authorized by Decision No. 30436, dated December 20, 1937	297,000.00	
Proceeds from sale of \$300,000 of bonds authorized by Decision No. 31620, dated January 3, 1939	306,000.00	
Proceeds from sale of \$500,000 of bonds authorized by Decision No. 32488, dated October 24, 1939	<u>507,000.00</u>	<u>1,110,000.00</u>
Unfinanced expenditures, April 30, 1940		<u>\$ 909,116.98</u>

In addition, the application shows estimated construction expenditures during the period from April 30, 1940 to December 31, 1940 of \$593,256.89 and estimated retirements of \$72,000, leaving a balance of \$521,256.89 of net expenditures for the eight months period. The unfinanced expenditures as of April 30, 1940 and the estimated expenditures for the remainder of the year aggregate \$1,430,373.87.

In making the present application for permission to issue \$432,000 of bonds and \$514,000 of preferred stock, the company reports that it proposes and desires to use the proceeds to pay the outstanding \$250,000 short term note, to reimburse its treasury for moneys expended from income for construction purposes and to finance in part the construction program for the period from April 30, 1940 to December 31, 1940.

In this connection a review of the company's financial statements on file with the Commission indicates that the company, during the period from January 1, 1936 to April 30, 1940, financed its construction and other requirements, in excess of the amount of bond proceeds, primarily with notes and other current liabilities and through the investment of money represented by the depreciation reserve. During this period the credit balance in its depreciation reserve increased from \$1,748,077.38 to \$2,901,665.20, including a transfer of \$245,355.28 from surplus, while the balance in its surplus account, excepting capital surplus, decreased from \$304,141.88 to \$253,976.12. A summary analysis of the latter account, taken from the reports filed by the company with the Commission, for the period from January 1, 1936 to April 30, 1940, is as follows:-

Credit balance, January 1, 1936		\$304,141.88
Credits:		
Net income	\$1,929,811.17	
Tax adjustments	64,950.52	
Other adjustments	<u>2,841.47</u>	
Total credits		1,998,603.16
Debits:		
Dividends on stock	\$1,701,982.62	
Transfer to depreciation reserve	245,355.28	
Loss on property sold	40,340.13	
Expense in connection with property acquired	\$29.97	
Expenditures for political purposes	<u>60,260.92</u>	
Total debits		2,048,768.92
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Balance, April 30, 1940		\$253,976.12
Appropriated for plant contingencies		<u>180,970.36</u>
Unappropriated surplus		<u>\$ 73,005.76</u>

It clearly appears that the company has need for additional capital funds to carry on its construction program and that the request of the company to issue stocks and bonds, in the amounts requested, should be granted. In our opinion there is not sufficient justification for an order authorizing the use of any stock and bond proceeds, at this time, to reimburse the company's treasury and our order, accordingly, will permit the use of such proceeds to pay the outstanding \$250,000 note and to finance, in part, the construction expenditures to be made during the period from April 30, 1940 to December 31, 1940.

There remains to be considered the prices at which the company intends to sell its securities. It is reported that it proposes to sell the bonds to one or more purchasers at private sale at a price to net it not less than the principal amount of the bonds plus accrued interest. It does not propose to execute any underwriting agreement but does anticipate paying a selling commission of \$10 per \$1,000 bond. As to the preferred stock, it proposes to sell it at private sale to one or more persons resident in California at a price not less than the par value.

We have considered this phase of the application and have concluded that the company, after payment of commissions and other expenses incident to the issue and sale of its bonds, should receive not less than 101 per cent. of face value, plus accrued interest, for its bonds.

O R D E R

California Water Service Company, having applied to the Railroad Commission for permission to issue stock and bonds, and the Commission being of the opinion that this is not a matter in which a public hearing is necessary, and that the money, property or labor to be procured or paid for through the issue of such stock and bonds is

reasonably required for the purposes specified herein, and that the expenditures for said purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

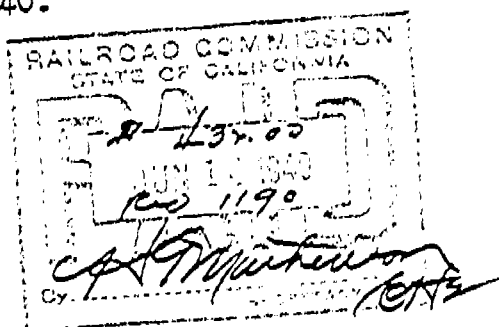
IT IS HEREBY ORDERED that California Water Service Company, after the effective date hereof and on or before December 31, 1940, be, and it hereby is authorized to issue and sell \$432,000 of its first mortgage 4% bonds, Series ^B/~~A~~, due May 1, 1961, at not less than ^{HFM} 101 per cent. of face value, net, plus accrued interest, and \$514,000 of its 6% preferred stock, Series B, at not less than the par value thereof, and to use the proceeds to pay the outstanding short term note for \$250,000 and to finance in part its construction expenditures during the period from April 30, 1940 to December 31, 1940, provided-

1. That only such expenditures as are properly chargeable to fixed capital accounts under the system of accounts prescribed by the Commission may be financed through the use of such proceeds.

2. That the authority herein granted will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Four Hundred and Thirty-two (\$432.00) Dollars; and

3. That applicant shall file with the Commission, on or before the 25th day of each month, a verified report of the issue of the stock and bonds herein authorized and of the disposition of the proceeds, as required by the Commission's General Order No. 24-A, and in connection with such reports, a statement showing in some detail the total monthly construction expenditures financed in part through the use of such proceeds.

DATED at San Francisco, California, this 11th day of June, 1940.



[Handwritten signatures of Commissioners]

Commissioners