

ORIGINAL

Decision No. 34448

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 24347

Bacigalupi, Elkus & Salinger by
Charles Elkus, Jr., for Applicant

BY THE COMMISSION:

O P I N I O N

California Water & Telephone Company asks permission to issue and sell at 106½% of their face value and accrued interest \$5,650,000 of First Mortgage Bonds, 3.6% Series due 1971, to redeem \$5,650,000 of First Mortgage Bonds, 4% Series due 1969, to pay expenses incident to the issue of said bonds, and to reimburse its treasury because of expenditures for additions and betterments to its properties. It also asks permission to execute a supplemental indenture substantially in the same form as the supplemental indenture filed in this proceeding as Exhibit 5. It further asks permission to amortize bond discount, expenses and premiums in the manner hereinafter recited.

California Water & Telephone Company, hereinafter some times referred to as the "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 in the Cities of Chula Vista, National City and 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; in the Cities of Monterey, Pacific Grove and Carmel, and certain unincorporated areas in the County of Monterey. 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, Temecula, Loma Linda, Moreno, and Yucaipa, and in certain unincorporated areas in the Counties of Riverside and San Bernardino; in the Cities of San Fernando, Sierra Madre and Monrovia, and in certain unincorporated areas in the County of Los Angeles. The company is also serving water for domestic, irrigation and commercial purposes to the Del Monte Properties Company under private contract in Monterey County.

As of May 31, 1941, the company reports its assets and liabilities as follows:

<u>ASSETS</u>		
Fixed Capital		\$10,447,037.50
General Office	\$ 28,543.86	
Water Department	8,075,275.58	
Telephone Department	<u>2,343,218.06</u>	
Cash and Special Deposits		50,171.31
Accounts Receivable - Due from Customers and Agents less Reserve for Uncollectible Accounts		130,164.87
Miscellaneous Accounts Receivable		5,566.95
Miscellaneous Investments		597,480.50
Materials and Supplies		117,183.09
Prepaid Expenses		24,412.74
Unamortized Discount on Securities and Expense		618,307.29
Stocks	\$ 150,000.00	
Bonds	<u>468,307.29</u>	
Other Suspense		820,710.55
Construction Work in Progress		<u>8,119.03</u>
Total Assets		<u>\$12,819,153.83</u>
<u>LIABILITIES</u>		
Capital Stock		\$ 4,608,200.00
Common	\$2,108,200.00	
Preferred	<u>2,500,000.00</u>	
Bonds		5,650,000.00
Accounts Payable		120,896.87
Audited Vouchers and Unpaid Wages	\$ 104,050.52	
Consumers' Deposits	14,938.23	
Miscellaneous Accounts Payable	<u>1,908.12</u>	
Taxes Accrued		69,027.44
Service Billed in Advance		16,806.83
Consumers' Advances for Construction		81,733.06
Donations in Aid of Construction		129,900.11
Reserve for Depreciation		1,635,624.45
Water Properties	\$1,292,404.15	
Telephone Properties	280,502.02	
Investment Properties	<u>62,718.28</u>	
Capital Surplus		7,862.95
Corporate Surplus		<u>499,102.12</u>
Total Liabilities		<u>\$12,819,153.83</u>

For 1940 the company's public utility operating revenues amounted to \$1,574,263.84, segregated as follows:

Water Department	\$ 993,602.77
Telephone Department	<u>580,661.07</u>
	<u>\$1,574,263.84</u>

The company's income available for fixed charges, dividends and surplus in 1940 amounted to \$658,921.06.

The Railroad Commission by Decision No. 32161, dated July 11, 1939, authorized California Water & Telephone Company to issue \$5,650,000 of First Mortgage Bonds, 4% Series due 1969, to provide itself with part of the funds necessary to redeem \$5,650,000 of First Mortgage 5% Bonds. The company sold the 4% bonds at 101% of their face value and accrued interest. The indenture securing the payment of the bonds provides that the company may, upon giving due notice, redeem said bonds at any time on or before June 1, 1943 upon payment of the principal thereof, accrued interest to the date of redemption, and a premium of 6% of the principal amount of the bonds redeemed. It is the company's intention to redeem said 4% bonds on September 1, 1941. Exclusive of the accrued interest, the company at that time must pay \$5,989,000 to redeem said 4% bonds.

As said, the company asks permission to issue and sell at 106½% of their face value and accrued interest, \$5,850,000 of First Mortgage Bonds, 3.6% Series due 1971. The bonds will be dated June 1, 1941 and mature June 1, 1971. The interest will be payable semi-annually on June 1 and December 1 of each year. The company reserves the right to redeem the 3.6% bonds prior to maturity. If it does so, it must pay a premium during each of the following periods in the amount set

forth after each of such period:

From June 2, 1941 through June 1, 1946 -	10%
From June 2, 1946 through June 1, 1951 -	8 $\frac{1}{2}$ %
From June 2, 1951 through June 1, 1956 -	7 $\frac{1}{2}$ %
From June 2, 1956 through June 1, 1961 -	6%
From June 2, 1961 through June 1, 1966 -	4 $\frac{1}{2}$ %
From June 2, 1966 through June 1, 1967 -	2 $\frac{1}{2}$ %
From June 2, 1967 through June 1, 1968 -	2%
From June 2, 1968 through June 1, 1969 -	1 $\frac{1}{2}$ %
From June 2, 1969 through June 1, 1970 -	1%
From June 2, 1970 through May 31, 1971 -	$\frac{3}{8}$ %

If any of the bonds are redeemed from the proceeds of the sale of property of the company to any public authority or from any funds in the hands of the Trustee in the special trust fund provided for in Article III of the Trust Indenture, as amended by the First Supplemental Indenture, the premium to be paid, on such redemption in lieu of the above set forth premiums, shall be such that the yield to the purchasers of the bonds will be 3.25% from the redemption date to the maturity date of the bonds.

In its petition, the company asks permission to use the proceeds from the sale of said \$5,850,000 of bonds for the following purposes:

To redeem all the company's issued and out- standing First Mortgage Bonds, 4% Series due 1969, principal amount	\$5,650,000
To pay premium on said bonds	339,000
To pay to Blyth & Co., Inc. a commission of 1/2 of 1% of the face value of the bonds to be issued and sold	29,250
To pay expenses in connection with the re- demption of outstanding bonds and the issue of new bonds (estimated)	<u>25,000</u>
Forward	\$6,043,000

Brought Forward \$6,043,000

To reimburse the treasury of the company for expenditures made for additions, betterments and replacements to its property and to provide for working capital with which to carry on its program for additions, betterments and replacements to its property 187,000

Total \$6,230,250

The \$5,850,000 of bonds will be sold to the following insurance companies:

Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin	\$3,500,000
Prudential Insurance Company of America, Newark, N. J.	1,000,000
Massachusetts Mutual Life Insurance Com- pany, Springfield, Mass.	750,000
Bankers Life Company, Des Moines, Iowa	200,000
Equitable Life Insurance Company of Iowa, Des Moines, Iowa	200,000
Provident Mutual Life Insurance Company, Philadelphia, Pa.	<u>200,000</u>

Total \$5,850,000

The testimony shows that the company has expended for additions and betterments to its properties approximately \$375,000 against which the Trustee has not authenticated any bonds. It further shows that for 1941, the company estimates (Exhibit 3) its gross construction expenditures at \$565,223 and its net additions and betterments at \$407,556. The record shows conclusively that the company has need for the proceeds which it will realize through the issue and sale of the \$5,850,000 of bonds. The order herein will authorize the company to use said proceeds to pay and discharge its outstanding \$5,650,000 of bonds, to pay the expenses incident to the issue and sale of said \$5,850,000 of bonds, and to reimburse its treasury because of income expended for additions and better-

ments. It is of record that approximately \$187,000 of the proceeds will be available for paying the cost of additions and betterments to the company's properties.

The company's balance sheet shows unamortized debt discount and expense of \$468,307.29. This amount includes \$242,775.55 of unamortized discount and expense applicable to the company's redeemed First Mortgage 5% bonds and \$225,531.74 of unamortized expense applicable to the company's First Mortgage 4% bonds and premium paid upon the redemption of said 5% bonds. By Decision No. 32161, dated July 11, 1939, the Commission, subject to the provisions of said decision, authorizes the company to amortize said discounts, expenses and premium on or before September 1, 1965. The company now requests permission to offset the \$339,000 of premium which it must pay upon the redemption of said 4% bonds by the premium which it will receive upon the sale of said 3.6% bonds. This will leave a premium of \$41,250 which the company proposes to amortize on or before September 1, 1965. We will at this time not modify the authority granted by said Decision No. 32161, dated July 11, 1939. The systems of accounts prescribed by the Railroad Commission provide that the \$339,000 of premium paid by the company upon the redemption of said 4% bonds should be charged to surplus. The company urges that such a charge will unduly reduce its surplus. For accounting purposes, we have no objection to the company amortizing the \$339,000 over the life of said 3.6% bonds. The annual amortization of the premium received upon the sale of said 3.6% bonds in conformity with the Railroad Commission's systems of accounts will approximately offset the annual amortization of the \$339,000 of premium paid and the expenses incident to the issue and sale of said 3.6% bonds and the expenses incident to the payment of said 4% bonds.

As stated, the company asks permission to execute a supplemental indenture in substantially the same form as the supplemental indenture filed in this proceeding as Exhibit 5. This supplemental indenture contains the form of the company's First Mortgage Bond, 3.6% Series due 1971. It also conveys in trust to Bank of America National Trust and Savings Association, Trustee under the company's trust indenture, dated September 1, 1935, as amended by the supplemental indenture dated June 1, 1939, the real property acquired by the company since June 1, 1939. We find the proposed supplemental indenture to be in satisfactory form.

O R D E R

A public hearing having been held on the above entitled application before Examiner Frankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by the issue of said \$5,850,000 of First Mortgage Bonds, 3.6% Series due 1971, by California Water & Telephone Company is reasonably required by said California Water & Telephone Company for the purposes herein stated; that the expenditures for said purposes, except the payment of expenses incident to the issue of said bonds, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted as provided in this order, therefore,

IT IS HEREBY ORDERED as follows:

1. California Water & Telephone Company may, after

the effective date hereof and prior to November 1, 1941, execute a supplemental indenture substantially in the same form as the supplemental indenture filed in this proceeding as Exhibit 5, provided that the authority herein granted to execute said supplemental 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 indenture as to such other legal requirements to which said supplemental indenture may be subject.

2. California Water & Telephone Company may, after the effective date hereof and prior to November 1, 1941, issue and sell at not less than 106½% of the principal amount thereof plus accrued interest, \$5,850,000 of First Mortgage Bonds, 3.6% Series due 1971.

3. California Water & Telephone Company shall use the proceeds realized from the issue and sale of said \$5,850,000 of First Mortgage Bonds, 3.6% Series due 1971, to pay and discharge its outstanding \$5,650,000 of First Mortgage 4% bonds, to pay expenses incident to the issue and sale of said \$5,850,000 of First Mortgage Bonds, 3.6% Series due 1971, to reimburse its treasury on account of income expended for additions and betterments to its properties, and to finance in part the construction expenditures set forth in Exhibit 3 filed in this proceeding.

4. Within thirty (30) days after the execution of said supplemental indenture herein authorized to be executed, California Water & Telephone Company shall file with the Rail-

road Commission two certified copies of said supplemental indenture.

5. California Water & Telephone Company shall file with the Railroad Commission reports in compliance with the Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

6. California Water & Telephone Company shall file with the Railroad Commission on or before December 31, 1941, a statement showing in detail its expenses incident to the issue and sale of said \$5,850,000 of First Mortgage Bonds, 3.6% Series due 1971.

7. The authority herein granted will become effective when California Water & Telephone Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Two Hundred (\$200.00) Dollars.

IT IS HEREBY FURTHER ORDERED that the Railroad Commission's systems of accounts insofar as California Water & Telephone Company is concerned are hereby modified and amended so as to permit said California Water & Telephone Company to amortize during the life of said 3.6% bonds the \$339,000 premium paid upon the redemption of said 4% bonds, or so much of said premium as said California Water & Telephone Company does not charge to surplus, provided that the Commission reserves the right to determine hereafter whether the charges necessary to amortize said premiums and expenses shall be included in the cost of money to California Water & Telephone Company.

Dated at San Francisco, California, this 29th day
of July, 1941.

[Signature]

Justus F. Coleman
Francis D. Havenue
[Signature]
Commissioners.

\$ 200.00
RAILROAD COMMISSION
STATE OF CALIFORNIA
PAID
JUL 29 1941
20-20
By [Signature]
SECRETARY