

Decision No. 36505

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application

- of -

CALIFORNIA WATER & TELEPHONE COMPANY

to issue and sell stocks and bonds.

Application
No. 25664

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 to issue and sell at their face value and accrued interest \$900,000 of its First Mortgage Bonds, 3½% Series, due 1971; and at \$26.50 per share (par value \$25 per share) 10,000 shares of its 6% cumulative preferred stock and use the proceeds to construct a dam on the Sweetwater River, to pay commissions and expenses incident to the sale of the securities and to reimburse its treasury because of income expended for additions and betterments.

California Water & Telephone Company, sometimes referred to as Applicant, 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, and in the

Cities of Monterey, Pacific Grove and Carmel, and certain unincorporated areas in the County of Monterey. Applicant 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, and in the Cities of San Fernando, Sierra Madre and Monrovia, and in certain unincorporated areas in the County of Los Angeles. Applicant is also serving water under contract for domestic, irrigation, and commercial purposes to The Del-Monte Properties Company in Monterey County.

As of April 30, 1943, applicant reports assets and liabilities as follows:

<u>ASSETS</u>		
<u>Fixed Capital</u>		\$11,029,836.81
General Office	\$ 6,730.04	
Water Department	8,357,751.35	
Telephone Department	<u>2,665,355.42</u>	
<u>Cash and Special Deposits</u>		242,809.13
Cash	241,369.13	
Special Deposits	<u>1,440.00</u>	
<u>Accounts Receivable</u>		218,062.01
<u>Interest and Dividends Receivable</u>		363.33
<u>Investments</u>		670,396.46
U.S.A. Tax Savings Notes- Series "C"	50,000.00	
Balance due on sale of nonoperating land	23,749.54	
Miscellaneous Investments	<u>596,646.92</u>	
<u>Material and Supplies</u>		132,805.38
<u>Prepaid Expenses</u>		47,444.79
<u>Unamortized Discount on Securities and Expense</u>		588,603.53
Stocks	150,000.00	
Bonds	<u>438,603.53</u>	
<u>Other Suspense</u>		765,948.43
<u>Construction Work in Progress</u>		<u>6,618.80</u>
Total Assets		<u>\$13,702,838.67</u>

LIABILITIES

<u>Capital Stock</u>		\$4,608,200.00
Common	\$2,108,200.00	
Preferred - 6% cumulative	<u>2,500,000.00</u>	
<u>Bonds</u>		
First Mortgage, 3.6% Series, due 1971		5,850,000.00
<u>Accounts Payable</u>		128,229.79
Audited Vouchers and unpaid wages	103,621.30	
Consumers' deposits	21,432.12	
Misc. accounts payable	<u>3,176.37</u>	
<u>Accrued Interest</u>		87,750.00
<u>Taxes Accrued</u>		221,966.55
<u>Service Billed in Advance</u>		23,269.48
<u>Consumers' Advances for Construction</u>		69,260.42
<u>Donations in Aid of Construction</u>		138,819.74
<u>Reserve for Depreciation</u>		1,896,904.65
Water Properties	1,432,044.61	
Telephone Properties	402,431.66	
Investment Properties	<u>62,428.38</u>	
Capital Surplus (Excess of historical cost of prop- erties acquired over cost to Company - net)		19,302.15
<u>Corporate Surplus</u>		<u>659,185.89</u>
Total Liabilities		<u>\$13,702,888.67</u>

Applicant in its annual reports for the years 1941
and 1942 submits the following income statement:

Item	1941	1942
Water Department		
Operating revenues	\$1,024,377.54	\$1,117,980.06
Operating expenses	<u>508,692.37</u>	<u>680,796.36</u>
Net operating revenue	\$ 515,685.17	\$ 437,183.70
Telephone Department		
Operating revenues	\$ 682,528.37	\$ 855,931.71
Operating expenses	<u>525,723.74</u>	<u>663,685.23</u>
Net operating revenue	\$ 156,804.63	\$ 192,246.48
Reduction in Federal Tax	\$ -	\$ 16,513.17*
Total net operating revenue	672,489.80	645,943.55
Nonoperating income	<u>44,203.83</u>	<u>35,548.83</u>
Gross income	\$ 716,693.63	\$ 681,492.38
Deductions:		
Nonoperating revenue deductions	\$ 36,422.73	\$ 32,635.28
Interest accrued on funded debt	221,537.10	210,600.00
Other interest	354.24	224.64
Amortization of debt discount and expense	19,432.27	19,571.88
Miscellaneous	<u>580.24</u>	<u>319.43</u>
Total deductions	\$ 241,903.85	\$ 230,715.95
Net Income	<u>\$ 438,367.05</u>	<u>\$ 418,141.15</u>

*Represents reduction in Federal Tax arising from loss on sale of nonoperating land, Sweetwater District, and loss on Monterey nonutility District.

During 1941 and 1942 applicant paid 6% dividends on its outstanding preferred stock. On its outstanding common stock it paid 9.4% or \$198,170.80 in 1941 and 8.2% or \$185,521.60 in 1942.

Applicant's 1941 public utility operating expenses include \$135,971.72 for depreciation and its 1942 operating expenses \$196,421.10 for the same purpose.

In order to increase its water supply in its Sweetwater District, which comprises National City, Chula Vista and adjacent territory, applicant proposes to construct a dam across the

Sweetwater River at a point known as Sweetwater Falls. This is about 18 miles above its present Sweetwater Dam. The new dam will create a reservoir having a capacity of about 27,700 acre feet. It will increase the safe yield of applicant's water supply by about 3,500 acre feet annually or 3.12 million gallons per day. The present Sweetwater reservoir, supplemented by pumping from the lower Sweetwater Valley, has a dependable safe yield of about 6,400 acre feet per annum or 5.72 million gallons per day. For the year ending June 30, 1944, applicant estimates the demand for water in its Sweetwater District at 9,000 acre feet. Because of the increasing demand for water, applicant is presently overdrawing the safe yield of its Sweetwater reservoir.

Applicant proposes to have the dam constructed under contract awarded under competitive bidding. In Exhibit 9 it estimates the cost of the dam and East Saddle Dyke at \$1,137,560. The contract price is not yet available. It is of record that applicant and its predecessors have expended about \$730,000 in acquiring riparian lands and releases between its present and proposed reservoir and for exploratory engineering work at the dam. Reference is made to part of this expenditure in Decision No. 28276, dated October 14, 1935, in Application No. 20127 (Vol. 39, Opinions and Orders - Railroad Commission of California, p. 406). No determination was then made, nor are we now making any determination how much of this expenditure is presently chargeable to fixed capital accounts. Such a determination will be made if applicant constructs the dam. We are making no finding as to how much of the cost of the project should be included in a rate base.

For the purpose of paying the cost of the dam and the expenses, estimated at \$12,500, incident to the issue of the bonds and stock herein mentioned, and for the reimbursement of applicant's treasury, applicant asks permission to issue \$900,000 of its First Mortgage Bonds, 3 $\frac{1}{2}$ % Series, due in 1971, and \$250,000 par value of its 6% cumulative preferred stock. Applicant has entered into an agreement to sell the bonds to the Northwestern Mutual Life Insurance Company at par and accrued interest. The bonds are to be dated June 1, 1943 and are to mature June 1, 1971. They are to be redeemable at the option of the company at any time, at 105 and accrued interest, to June 1, 1946, and thereafter at 105 less (1/5) one-fifth of one per cent for each year which shall have elapsed thereafter. However, if redemption occurs through funds in the special trust fund provided in the indenture securing the payment of the bonds, or from the proceeds of properties taken under eminent domain, the redemption price is to be par plus accrued interest. The terms of the bonds are more specifically set forth in a supplemental indenture filed in this application. The order herein will authorize the execution of such supplemental indenture.

Applicant has entered into an agreement to sell 10,000 shares, or \$250,000 par value of its 6% cumulative preferred stock to Modern Woodmen of America at \$26.50 per share. This stock is in all ways the same as the company's presently outstanding 6% stock, of which there is now \$2,500,000 outstanding. The preferred stock is redeemable at the option of the company at \$27.50 per share.

Both the bonds and stock are being sold at private sale,

which obviates the necessity for filing a registration statement with the Securities and Exchange Commission. A witness for applicant expressed the opinion that if the securities were publicly sold it might obtain slightly higher prices but that the cost of preparing and filing a registration statement would be in excess of the difference between the price applicant is receiving for the securities and the possible price it might receive if they were offered to the public generally. In connection with the sale of the securities applicant asks permission to pay a commission of \$12,500. The other expenses incident to the issue and sale of the securities are estimated at \$6,000.

Assuming that applicant issues the \$900,000 of bonds and the \$250,000 of stock, it would have outstanding \$6,750,000 of bonds, \$2,750,000 of preferred stock and \$2,108,000 of common stock, or a total of \$11,608,000 of securities. Of this amount the bonds would represent about 58.2%, the preferred stock 23.7% and the common stock 18%. This is not a desirable capital setup and applicant should take steps to improve the same. If its common stockholders are not in a position to acquire additional common stock or object to the sale of common stock to others applicant should use surplus earnings to pay part of the cost of the dam. We will not authorize the issue of the preferred stock. Upon the filing of an appropriate supplemental application we will consider the issue of short term serial notes payable from applicant's income.

ORDER

A public hearing having been held on the above-entitled matter before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that California Water & Telephone Company's request for permission to issue \$900,000 of bonds should be granted and that its request to issue \$250,000 of 6% preferred stock should be denied; that the money, property or labor to be procured or paid for by the issue of such bonds is reasonably required for the purposes herein stated, and that the expenditures for such purposes, except those for the payment of commissions, expenses and accrued interest are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. California Water & Telephone Company may, after the effective date hereof and on or before September 30, 1943, issue and sell at not less than par and accrued interest \$900,000 of its First Mortgage Bonds, 3½% Series, due June 1, 1971, and use the proceeds to pay in part the cost of constructing the dam and appurtenances described in Exhibit 9, filed in this application; to pay a commission incident to the sale of said bonds of not more than \$9,000, and to pay expenses incident to the issue of said bonds.

2. California Water & Telephone Company may, after the effective date hereof and on or before September 30, 1943,

execute a supplemental indenture substantially in the same form as the supplemental indenture filed in this application on July 13, 1943, 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.

3. This application insofar as it involves the issue of \$250,000 par value of 6% preferred stock is denied without prejudice.

4. The authority herein granted shall become effective when California Water & Telephone Compsny has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Nine Hundred (\$900.00) Dollars.

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

6. Within thirty (30) days after the execution of the supplemental indenture herein authorized, California Water & Telephone Company shall file with the Railroad Commission two certified copies of the supplemental indenture executed under the authority herein granted.

Dated at San Francisco, California, this 20th
day of July, 1943.

[Signature]
[Signature]
Justus J. Casper
[Signature]
[Signature]
Commissioners

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RAILROAD COMMISSION
STATE OF CALIFORNIA
JUL 21 1943
[Signature]
SECRETARY