

Decision No. 28157

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  
bonds and serial notes and to mortgage  
its properties.

**ORIGINAL**

Application  
No. 26896

McCUTCHEEN, THOMAS, MATTHEW, GRIFFITHS & GREENE  
By Henry D. Costigan and Hazel Flagler, for  
Applicant.

BY THE COMMISSION:

O P I N I O N

In this application, California Water Service Company, hereinafter sometimes referred to as Applicant, asks permission to issue and sell at 107% of their face value, plus accrued interest from November 1, 1945, \$11,282,000 of first mortgage 3 1/2% bonds Series C due November 1, 1975, and issue and sell at par \$600,000 of serial notes (average interest rate 1.9%) and use the proceeds to redeem \$11,882,000 of 4% bonds, pay expenses incident to the issue of said securities and reimburse its treasury. Applicant also asks permission to execute a supplemental mortgage of chattels and trust indenture to secure the payment of said bonds and account for past and future bond discounts, expenses and premiums in the manner hereinafter set forth.

Applicant is engaged in the business of supplying and distributing water for domestic and industrial purposes in the following localities in the State of California:

Atherton, Bakersfield, Chico, Concord, Crockett, Danville, Dixon, East Los Angeles (Belvedere), Hanford, Hillsborough (part for limited purposes), Hermosa Beach, Livermore, Lonita Park, Los Altos, Martinez (wholesale), Marysville, Menlo Park,

Oroville, Petaluma, Port Chicago, Port Costa, Redondo Beach, San Carlos, San Mateo, South San Francisco, Stockton, Valona, Visalia, Walnut Creek (wholesale), Willows and Woodside.

For 1944 Applicant reports operating revenues of \$3,648,465.25. It had available for the payment of interest, dividends and surplus \$1,194,606.72. This sum was used for the following purposes:

Bond interest	\$475,280.00
Interest on depreciation reserve	179,664.00
Other interest	428.79
Amortization of debt discount and expense	34,550.64
Dividends on preferred stock	208,502.17
Dividends on common stock	233,136.00
Additions to surplus	<u>63,045.12</u>
Total	\$1,194,606.72

Applicant has outstanding capital stock in the amount of \$6,389,200, segregated as follows:

Common, 116,568 shares, par value \$25 per share --- \$2,914,200  
 Preferred 6%, 139,000 shares par value \$25 per share --- \$3,475,000.  
 On the common stock Applicant during 1944 paid an 8% dividend and on the preferred 6%. Applicant is now giving consideration to the refunding of its 6% preferred stock through the issue of preferred stock bearing a lower dividend.

Applicant has outstanding \$11,882,000 of first mortgage 4% bonds, Series B due May 1, 1961. These bonds are now redeemable at the option of Applicant on sixty days' notice upon the payment of the principal thereof, the accrued interest and a premium equal to 5½% of the face amount of the bonds. The payment of the principal of the bonds and the premium entails an expenditure of \$12,535,510. For the purpose of paying the bonds and for other purposes Applicant asks permission to issue and sell at 107% of their face value and accrued interest from

November 1, 1945, \$11,282,000 face amount of first mortgage 3 $\frac{1}{2}$ % bonds, Series C due November 1, 1975, and at par \$500,000 face amount of serial notes.

The notes will be issued to the American Trust Company. They mature annually in amounts of \$60,000 on the first day of November in the years 1946 to 1955, inclusive. The interest rate is 1.3% on the first maturity. Thereafter it increases 0.1% for each subsequent maturity. The interest rate on the last maturity is 2.2% per annum. A copy of the proposed note is on file in this application as Exhibit "B".

Applicant has entered into an agreement (Exhibit 2) with Union Securities Corporation, et al., covering the sale of the \$11,282,000 of Series C bonds. The underwriters agree, as said, to pay for the bonds 107% of their principal amount, plus accrued interest from November 1, 1945, to the closing date which is expected to be November 5, 1945. This provision saves Applicant the expense of paying double interest for a period of about 60 days, the time during which it must give notice of the redemption of its 4% bonds. At the price stated the effective interest rate is about 2.9%. The testimony shows that Applicant's president conducted negotiations with several investment banking firms for the sale of the bonds and concluded that the price offered by Union Securities Corporation, et al, was the most advantageous to Applicant.

At the price stated Applicant will realize from the sale of the bonds and notes \$12,671,700, which it will expend for the following purposes:

To redeem 4% bonds,	\$12,535,510
To pay expenses of new bond issue and notes and redeem 4% bonds; approximately,	65,500
To reimburse treasury, approximately,	70,690

To secure the payment of said Series C bonds and of bonds which it may subsequently be authorized to issue, Applicant asks permission to execute a supplemental mortgage of chattels and trust indenture in substantially the same form as that filed in this application as Exhibit 1. The trust indenture, among other things, provides that after the issue of \$11,782,000 of bonds the trustee can authenticate bonds in an amount not exceeding 66-2/3% of the cost or value, whichever is less, of properties constructed or acquired by Applicant after August 1, 1945, subject to other provisions of the indenture. While the order herein will authorize the execution of the indenture, it should be understood that said order does not authorize applicant to issue bonds in addition to the \$11,282,000 authorized by said order or commit the Commission to authorize Applicant to issue bonds in amounts equal to 66-2/3% of the cost or value of its properties.

Applicant as of July 31, 1945, had recorded on its books \$440,234.16 of unamortized bond discount, expense and call premium applicable to its Series A, 5% bonds redeemed in 1936. Under Decision No. 28793, dated May 4, 1936, Applicant is authorized to amortize the \$440,234.16 on or before April 1, 1958, which was the original date of maturity of the 5% bonds. Applicant has also on its books unamortized premium of \$3,225.03 realized upon the sale of its Series B, 4% bonds which it now proposes to redeem. In doing so it must pay a premium of \$653,510 and incur expenses estimated at \$10,500, making a total of \$664,010. This amount will be reduced by an amount equal to tax savings result-

ing from the bond refunding estimated at \$484,916 and by said premium of \$3,225.03, leaving a balance of \$175,869. Applicant asks permission to amortize the \$175,869 on or before May 1, 1961, the original date of maturity of the Series B, 4% bonds. Upon the sale of the Series C, 3½% bonds, Applicant will realize a premium of \$789,740. This will be reduced by the expenses of the issue estimated at \$55,000. The remainder, \$734,740 will be credited to amortized premium on debt and will be written off on or before November 1, 1975, the date of the maturity of the Series C bonds. The annual amortization of the premium received on the Series C bonds will exceed the aggregate annual charges to income because of the amortization of discount, expense and call premiums, applicable to the Series A and Series B bonds. For accounting purposes, we will permit applicant to dispose of the unamortized discounts, expenses and premiums in the manner indicated. We, however, reserve the right to revoke or modify such permission at any time and to determine hereafter to what extent, if at all, the charges to write off discounts, expenses and premiums pertaining to refunded issues represent a part of the cost of money invested in Applicant's properties.

O R D E R

California Water Service Company having applied to the Railroad Commission for permission to issue and sell \$11,282,000 of its first mortgage 3½% bonds, Series C, due November 1, 1975, and \$600,000 of its serial notes, and execute a supplemental mortgage of chattels and 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, that the expenditures to redeem Applicant's outstanding bonds and reimburse its treasury 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 November 15, 1945, execute a supplemental mortgage of chattels and trust indenture substantially in the same form as that filed in this proceeding as Exhibit 1.

2. California Water Service Company may, after the effective date hereof and prior to November 15, 1945, issue and sell at not less than 107% of their face value and accrued interest from November 1, 1945, \$11,282,000.00 of first mortgage 3½% bonds, Series C, due November 1, 1975, and at par \$600,000.00 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 \$11,882,000.00 of first mortgage 4% bonds, Series B, now outstanding, to pay expenses incident to the issue and sale of said bonds and notes and the redemption of said 4% bonds 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 account for the unamortized discounts, expenses and call premiums applicable to its Series A and Series B bonds in the manner and under the conditions set forth in the foregoing opinion.

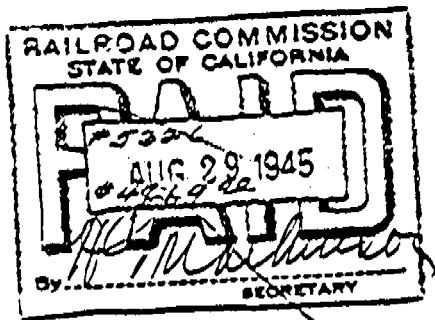
5. The authority herein granted to issue bonds and notes will become effective when California Water Service Company has paid the fee prescribed by Section 57 of the Public Utilities Act.

6. California Water Service Company shall on or before March 1, 1946, 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 \$11,282,000 of bonds and the said \$600,000 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 in so far as applicable, is made a part of this order.

8. Within thirty (30) days after the execution of said supplemental mortgage of chattels and trust indenture, California Water Service Company shall file with the Commission two certified copies of the same and a complete copy of the registration statement, including all exhibits, filed with the Securities and Exchange Commission.

Dated at San Francisco, California, this 28<sup>th</sup> day of August, 1945.



[Signature]  
Justice F. C. [Signature]  
[Signature]  
[Signature]  
Commissioners