

ORIGINAL

Decision No. 39588

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
)	
CALIFORNIA WATER SERVICE)	
COMPANY, a corporation,)	Application
)	No. 27895
for an order authorizing it to)	
issue an additional amount of its)	
common stock.)	
-----)	

McCutcheon, Thomas, Matthew, Griffiths & Greene,
by Henry D. Costigan and Robert M. Brown,
for applicant.

O P I N I O N

In this application, California Water Service Company asks permission to issue 50,000 shares of common stock for the purposes hereinafter stated. Applicant proposes to invite publicly written sealed bids for the purchase of the 50,000 shares of stock.

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, Broadmoor Tract (San Mateo County), Chico, Concord, Crockett, Danville, Dixon, East Los Angeles (Belvedere), Hanford, Hillsborough (part for limited purposes), Hermosa Beach, Livermore, Lomita 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.

Applicant has outstanding \$3,608,700 par value of common stock consisting of 144,348 shares of the par value of \$25 each. It has also outstanding \$3,475,000 par value of 4.4% cumulative preferred stock consisting of 139,000 shares of the par value of \$25 each. The preferred stock was issued during the latter part of 1945 to redeem a like number of shares of outstanding 6% cumulative preferred stock.

Applicant reports its assets and liabilities as of August 31, 1946, as follows:

Assets

Plant property and rights (includes \$1,180,903.01 for intangible assets)		\$24,104,476.20
Construction work in progress		730,460.81
Miscellaneous investments		2,001.00
Miscellaneous special deposits		42,307.94
Current assets:		1,448,457.93
Unexpended cash advanced by de- positors for construction under line extension agreements	\$426,277.00	
Cash on hand and in banks	264,931.08	
U.S. Treasury Savings Notes, Series C	25,000.00	
Accounts receivable (less reserve \$12,561.78)	275,567.09	
Materials and supplies (less reserve \$10,353.48)	436,606.76	
Accrued interest receivable	76.00	
Prepayments		28,224.32
Miscellaneous deferred charges and suspense		<u>49,767.87</u>
Total assets		<u>\$26,405,696.07</u>

Liabilities.

Common stock		\$ 3,608,700.00
Preferred stock, 4.4% cumulative		3,475,000.00
First mortgage 3½% bonds, due Nov.1,1975		11,282,000.00
Serial notes, due 1947-1955		540,000.00
Current liabilities:		1,073,829.92
Serial note due Nov.1,1946	\$ 60,000.00	
Note due bank Jan.1,1947	250,000.00	
Accounts payable	186,579.55	
Interest accrued	226,666.17	
Taxes accrued	303,840.63	
Unearned revenue	29,422.39	
Dividends accrued on pre- ferred stock	6,370.21	
Dividends declared on common stock	72,174.00	
Consumers' meter deposits	32,422.90	
Miscellaneous accrued liabilities	6,354.07	
Consumers' extension deposits		819,235.09
Reserve for depreciation		4,253,887.47
Reserve for amortization of intangibles		21,838.41
Miscellaneous reserves		39,583.18
Contributions for extensions		359,475.70
Premium on funded debt-net		264,516.76
Capital surplus		70,499.30
Paid-in surplus		131,012.67
Earned surplus		<u>566,117.57</u>
Total liabilities		<u>\$26,405,696.07</u>

Applicant reports its operating revenues for the past three years and eight months as follows:

1943	\$3,393,640.83
1944	3,648,465.25
1945	3,930,637.24
1946-8 months	2,813,727.42

The following statement shows applicant's earned surplus and dividend payments for the same period:

	1943	1944	1945	8 Mos. Ended 8/31/46
Earned surplus at beginning of period as per accounts	\$249,025	\$375,486	\$438,531	\$411,406
Add:				
Net income for the period from Income Statement	<u>568,098</u>	<u>504,683</u>	<u>511,114</u>	<u>473,168</u>
	<u>\$817,123</u>	<u>\$880,169</u>	<u>\$949,645</u>	<u>\$884,574</u>
Deduct:				
Dividends paid or accrued:				
Preferred Stock (at rate of \$1.50 per share from Dec. 31, 1942 to Nov. 15, 1945 and at the rate of \$1.10 per share from Nov. 15, 1945 to Aug. 31, 1946)	\$208,501	\$208,502	\$201,552	\$101,934
Common Stock (\$2.00 per share in 1943 and 1944; \$2.00 per share on 116,568 shares and 50¢ on 27,780 additional shares issued during 1945; \$1.50 per share in the eight months ended Aug. 31, 1946)	233,136	233,136	247,026	216,522
Expenses of refinancing of Preferred Stock	--	--	89,661	--
	<u>\$441,637</u>	<u>\$441,638</u>	<u>\$538,239</u>	<u>\$318,456</u>
Earned surplus at close of period	<u>\$375,486</u>	<u>\$438,531</u>	<u>\$411,406</u>	<u>\$566,118</u>

The testimony shows that applicant has need for the cash which it will realize through the issue and sale of the 50,000 shares of common stock. It has borrowed \$500,000 from the American Trust Company on unsecured notes due January 1, 1947, for the purpose of carrying forward its construction program. For the last four months of 1946 it estimates its construction expenditures at \$407,794.72, while for the year 1947 it estimates its construction expenditures at \$2,117,962. The detail of these estimated expenditures is set forth in Exhibit "C" and Exhibit "D". Applicant's income is not sufficient to pay for the additions and betterments. Its annual depreciation accruals for 1946 will amount to about \$395,000 and for 1947 to about \$425,000.

Its surplus earnings available for construction purposes are estimated at \$217,000 in 1946 and from \$60,000 to \$80,000 in 1947.

Applicant will use the proceeds from the issue of the stock for the following purposes:

To pay bank loans	\$500,000
To pay expenses incident to the issue of stock, estimated at	22,000
To reimburse applicant's treasury because of income expended for additions and betterments prior to August 31, 1946	700,000
To pay in part the cost of additions and betterments installed after August 31, 1946 and during 1947	Remainder of proceeds

Some of the money used to reimburse applicant's treasury will be used to pay the cost of additions and betterments.

Applicant, as stated, proposes to invite publicly written sealed bids for the purchase of the 50,000 shares of common stock. It has filed as Exhibit "1" a copy of its public invitation for bids, statement of terms and conditions relating to bids, form of bid, and the purchase agreement.

O R D E R

A public hearing having been held on the above entitled application by Examiner Fankhauser, 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 50,000 shares of common stock by California Water Service Company is reasonably required by it for the purposes herein stated, that 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 Service Company may issue and sell, after the effective date hereof and on or before March 1, 1947, 50,000 shares of its common capital stock and use the proceeds for the following purposes:

To pay bank loans	\$500,000
To pay expenses incident to the issue of stock, about	22,000
To reimburse applicant's treasury because of income expended for additions and betterments prior to August 31, 1946	700,000
To pay in part the cost of additions and betterments installed after August 31, 1946 and during 1947 or reimburse its treasury because of income expended for said purposes	Remainder of proceeds

2. The authority herein granted will become effective when the Commission has fixed the price at which California Water Service Company may sell said 50,000 shares of common stock.

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

4. Within thirty (30) days after the issue and sale of said 50,000 shares of common stock, California Water Service Company shall file with the Railroad Commission a complete copy of the registration statement filed with the Securities and Exchange Commission.

5. Within six (6) months after the issue and sale of said 50,000 shares of common stock, California Water Service Company shall file with the Railroad Commission a statement showing in detail the expenses incurred by it in connection with the issue and sale of said 50,000 shares of common stock.

Dated at San Francisco, California, this 4th day of November, 1946.

Harold P. Kula
Justice F. Calmes
Thomas Dewey
Lee H. Powell
G. F. Johnson
Commissioners