

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. Applicant also serves water for domestic, irrigation and commercial purposes to Del Monte Properties Company, under private contract in Monterey County.

In reports filed with the Commission, Applicant for the past three years has reported operating and other revenues and operating expenses and fixed charges as follows:

	1945	1946	1947
<u>Water Department</u>			
Gross revenue	\$1,527,413.85	\$1,567,088.60	\$1,674,402.12
Operating expenses (incl. dep. and amort.)*	798,146.22	855,116.83	960,917.45
Net operating revenue	\$ 729,267.63	\$ 711,971.77	\$ 713,484.67
<u>Telephone Department</u>			
Gross revenue	\$1,261,309.07	\$1,417,040.52	\$1,614,394.23
Operating expenses (incl. dep. and amort.)*	991,974.03	1,180,377.13	1,493,353.54
Net operating revenue	\$ 269,335.04	\$ 236,663.39	\$ 121,040.69
Total net operating revenue	\$ 998,602.67	\$ 948,635.16	\$ 834,525.36
Non-operating revenue less non-operating expense	15,227.67	21,839.96	(3,469.80)
Misc. income charges			520.00
Gross income	\$1,013,830.34	\$ 970,475.12	\$ 830,535.56
Interest on funded debt	\$ 239,350.00	\$ 239,850.00	\$ 263,483.67
Interest-miscellaneous	8,171.68	6,773.72	5,019.78
Interest charged to construction (Cr.)	(21,380.74)		(28,653.09)
Amortization of debt discount	21,212.53		
Trustees fees	642.00		
Total	\$ 248,493.47	\$ 246,623.72	\$ 239,848.36
Gross income less deductions	\$ 765,336.87	\$ 723,851.40	\$ 590,687.20
Provision for federal income-tax	9,770.66	221,834.67	147,048.50
Remainder available for dividends and surplus	\$ 755,566.21	\$ 502,016.73	\$ 443,638.70
*Included above:			
Depreciation, Water Dept.	\$ 118,387.96	\$ 133,387.96	\$ 133,387.96
Depreciation, Telephone Dept.	108,874.38	110,744.34	129,338.22
Amortization, " "	47,486.85		
Total depreciation and amortization	\$ 274,749.19	\$ 244,132.30	\$ 262,726.18

Applicant has outstanding \$3,200,000 (128,000 shares) of common stock, and \$3,225,000 of cumulative preferred stock consisting of 107,000 shares of \$1.20 Dividend Series and 22,000 shares of \$1.00 Dividend Series. All shares of Applicant's stock are of the par value of \$25 each. Applicant's bonded indebtedness on December 31, 1947, amounted to \$8,750,000, and consists of the following:

First mortgage bonds, 3.60% Series due 1971	\$5,850,000
First mortgage bonds, 3-1/4% Series due 1971	900,000
First mortgage bonds, 2-7/8% Series due 1971	1,000,000
First mortgage bonds, 3% Series due 1971	1,000,000

Assuming that Applicant issues the \$1,000,000 of debentures covered by this application, its capitalization ratios will be as follows:

Bonds	51.5%
Debentures	5.9%
Preferred stock	19.0%
Common stock and surplus	23.6%

In Exhibit "A", Applicant reports its 1948 construction costs as follows:

<u>Department</u>	<u>Gross Additions</u>	<u>Retire-ments</u>	<u>Net Additions</u>
<u>Water:</u>			
Monterey Peninsula Division	\$1,030,250	\$ 42,800	\$ 987,450
San Gabriel Valley Division	99,493	8,257	91,236
San Diego Bay Division	202,950	19,925	183,025
Total Water Department	<u>\$1,332,693</u>	<u>\$ 70,982</u>	<u>\$1,261,711</u>
<u>Telephone:</u>			
Routine estimates	\$ 424,610	\$216,720	\$ 207,890
Miscl. specific outside plant construction	90,000	12,500	77,500
San Fernando District	727,420	159,900	567,520
Monrovia District	178,390	11,180	167,210
Redlands District	54,750	2,855	51,895
Palm Springs District	134,050	2,850	131,200
Southern District	17,435	4,355	13,080
Total Telephone Department	<u>\$1,626,655</u>	<u>\$410,360</u>	<u>\$1,216,295</u>
Total Water and Telephone Departments	<u>\$2,959,348</u>	<u>\$481,342</u>	<u>\$2,478,006</u>

The testimony shows that to carry out its 1948 construction program, Applicant must raise about \$2,120,000 through the issue of securities or from bank loans. It has borrowed on a short-term 2½% note \$200,000. Because of market conditions and the decline of its earnings in 1947, Applicant's officers feel that it cannot at this time obtain a satisfactory price for either its common or preferred stock. Its management, therefore, has concluded to raise part of its needed cash through the issue and sale of \$1,000,000 of debentures. It has made arrangements to sell \$750,000 of the debentures at par to Massachusetts Mutual Life Insurance Company, and \$250,000 to Bankers Life Insurance Company of Nebraska.

The debentures will be dated March 1, 1948, and mature March 1, 1968. They bear interest at the rate of 3-3/4% per annum, payable semi-annually. The debentures will be issued pursuant to the terms and conditions of the trust indenture filed in this application as Exhibit "5". We find the indenture in satisfactory form. The payment of the debentures will not be secured by a lien on Applicant's properties. As a sinking fund for the purchase and redemption of the debentures, Applicant agrees that it will pay to the trustee on the first day of March, 1951, 1952, and 1953, the sum of \$50,000, and on the first day of March, 1954, the sum of \$60,000, and that it will also pay to the trustee the sum of \$60,000 on the first day of March of each and every year thereafter to and including the first day of March, 1967. In lieu of making cash payments, Applicant may deliver to the trustee uncanceled debentures. Upon giving the notice provided in the trust indenture, Applicant may redeem the debentures at any time prior to maturity, in whole or from time

to time in part, upon payment of the principal of the debentures to be redeemed and interest accrued thereon to the date fixed for the redemption thereof and a premium of 3% of such principal, which premium shall be reduced by 2/10th of 1% on March 1, 1953, and by an additional 2/10th of 1% on each March 1 thereafter to and including March 1, 1967. Thereafter they may be redeemed without the payment of a premium. If any of the debentures are redeemed from the proceeds of the sale of any class of stock of Applicant, the premium shall be equal to one-half of the then applicable premium for the redemption of the debentures otherwise than through the sinking fund. The sinking fund payments heretofore mentioned are applied to the redemption of debentures without the payment of a premium. If debentures are redeemed through the application of funds in the sinking fund in excess of \$50,000 in principal amount in any one year prior to March 1, 1954, or in excess of \$60,000 in principal amount in any one year commencing March 1, 1954, or thereafter, Applicant must pay a premium equal to one-half of the then applicable premium for debentures redeemed otherwise than through the sinking fund, provided that if debentures in excess of \$100,000 in principal amount shall be redeemed in any one year prior to March 1, 1954, or \$120,000 in principal amount in any one year commencing March 1, 1954, or thereafter, through application of funds in the sinking fund, the premium upon the principal amount of debentures so redeemed in excess of \$100,000 or in excess of \$120,000, as the case may be, shall be the then applicable premium for the redemption of debentures otherwise than through the sinking fund.

In the indenture Applicant agrees that it will not, as long as any of the debentures are outstanding, declare or pay any

dividends (excepting stock dividends) on any share or shares of its common stock or apply any of the funds or assets of the company (excepting the proceeds from the sale of other shares of stock) to the purchase or retirement of any share or shares of common stock in excess of the net income derived by Applicant from the operation of its business after December 31, 1947, plus the sum of \$250,000. It further agrees that it will not incur any current indebtedness other than ordinary accounts payable arising out of the operation of its business, in excess of \$500,000 at any time outstanding and expressed to mature within twelve months from the date of the indebtedness.

Applicant asks permission to use the proceeds from the sale of the \$1,000,000 of debentures for the following purposes:

To pay expenses in connection with the issue and sale of the debentures, about	\$ 2,000
To pay fee in connection with the sale of debentures	5,000
To pay 1948 construction expenses or pay short-term bank loans incurred for that purpose, about	987,000

ORDER

The Commission having considered the evidence submitted at the hearing had on this application before Examiner Fankhauser, and it being of the opinion that the money, property or labor to be procured or paid for through the issue of said \$1,000,000 of debentures by California Water & Telephone Company is reasonably required by said company for the purposes herein stated, which

purposes, other than the accrued interest and payment of expenses incident to the issue and sale of the debentures, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. California Water & Telephone Company may issue and sell, after the effective date hereof and on or before May 31, 1948, at not less than par, \$1,000,000 principal amount of 20-year 3-3/4% sinking fund debentures due March 1, 1968, and use the proceeds for the purposes stated in the foregoing opinion.

2. California Water & Telephone Company may execute, after the effective date hereof and on or before May 31, 1948, a trust indenture in, or substantially in, the same form as the trust indenture on file in this application as Exhibit "5".

3. California Water & Telephone Company shall file with the Public Utilities Commission of the State of California such report, or 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.

4. 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 one thousand (\$1,000.00) dollars.

5. Within thirty (30) days after the issue of said \$1,000,000 of debentures, California Water & Telephone Company

shall file with the Public Utilities Commission of the State of California two (2) copies of the trust indenture executed under the authority herein granted, and a copy of each contract covering the sale of said \$1,000,000 of debentures.

Dated at San Francisco, California, this 30th day of March, 1948.

R. J. Anderson
Justus J. Carlson
James F. Luce
Harold P. Kula
Herbert Pottler
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
R 9613
MAR 31 1948
\$1,000,000
W. A. Klippel