

ORIGINAL

Decision No. ~~42125~~

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER SERVICE COMPANY, a)
corporation, for an order authorizing) Application
it to issue an additional amount of) No. 29682
its bonds and preferred and common)
stocks.)
-----)

McCutchen, Thomas, Matthew, Griffiths & Greene,
by Robert M. Brown, for Applicant.

O P I N I O N

In this application, California Water Service Company asks permission to issue and sell, for the purposes hereafter stated, \$1,500,000 principal amount of its First Mortgage 3-1/4% Bonds, Series C, due November 1, 1975, and 80,000 shares of Cumulative Convertible Preferred Stock, Series D, of the par value of \$25 per share. It also asks permission to issue, from time to time, such number of shares of common stock of the par value of \$25 per share as may be issuable to persons who shall surrender in exchange therefor, shares of Applicant's Cumulative Convertible Preferred Stock, Series D.

California Water Service Company is a California corporation. It is engaged in the business of the supply and distribution of 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, 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 as of July 31, 1948, reports assets and
 liabilities as follows:

Assets

Plant, property and equipment		\$30,907,363.04
Intangibles	\$ 1,195,785.17	
Tangible	28,483,557.29	
Construction work in progress	1,228,020.58	
Line extension deposits not yet expended for plant and property		285,739.29
Current assets		1,036,226.71
Cash in bank and on hand	90,937.39	
Accounts receivable (less reserve \$11,150.50)	349,300.45	
Materials and supplies (less reserve \$10,049.83)	595,988.87	
Miscellaneous investments		14,497.15
Miscellaneous special deposits		14,411.35
Prepayments		54,685.33
Miscellaneous deferred charges		75,749.20
Total assets		<u>\$32,388,672.07</u>

Liabilities

Capital stock		\$ 8,725,000.00
Common (210,000 shares)	\$ 5,250,000.00	
Preferred (139,000 shares 4.4%)	3,475,000.00	
Funded debt		13,202,000.00
First mortgage 3½% bonds, Series C, due Nov.1,1975	12,782,000.00	
Serial notes, due 1949 to 1955	420,000.00	
Current liabilities		2,359,310.43
Serial note due Nov.1,1948	60,000.00	
Bank loans due Dec.31,1948	1,520,000.00	
Accounts payable	276,418.23	
Interest accrued	107,173.74	
Taxes accrued	315,721.50	
Consumers' meter deposits	30,968.55	
Unearned revenue	32,222.57	
Dividends accrued on preferred stock	31,854.17	
Miscellaneous	14,951.67	
Liabilities carried forward		24,316,310.43

Liabilities brought forward	\$24,316,310.43
Consumers' line extension deposits	1,381,137.43
Contributions for extensions	361,316.15
Reserves	4,578,888.60
Depreciation	4,534,351.67
Amortization of intangibles	25,582.55
Miscellaneous	18,954.38
Unamortized premium on Series A, B & C bonds (net)	210,391.08
Capital surplus	70,922.90
Paid-in surplus	665,454.81
Earned surplus	<u>804,250.67</u>
Total liabilities	<u>\$32,388,672.07</u>

In Exhibit "C", Applicant estimates its construction expenditures for 1948 at \$3,266,683, and shows that from January 1 to July 31, 1948, it expended for such purposes \$1,913,533 leaving an unexpended balance of \$1,353,150. The testimony shows that Applicant's 1948 construction expenditures will exceed said estimate and may approximate \$4,000,000. Applicant has to date borrowed from two banks, for the purpose of financing in part its 1948 construction expenditures, \$1,970,000 and may borrow \$300,000 more before the proceeds from the sale of the bonds and stock become available.

Applicant asks permission to use \$2,800,000 of the bond and stock proceeds to reimburse its treasury for a portion of the moneys actually expended prior to July 31, 1948, from income or other moneys in its treasury not secured by or obtained from the issue of securities and expended for the acquisition of property or for the construction, completion, extension or improvement of its water works facilities. Applicant states that the major portion of the proceeds of such reimbursement will be used to repay sums borrowed from banks on short-term notes to assist Applicant in defraying the cost of its 1948 construction program.

To the extent that Applicant has borrowed funds from banks to pay expenses incurred because of the acquisition or construction of properties or the improvement of its water works facilities, Applicant should directly apply bond and stock proceeds to discharge and pay such bank loans. The remainder of the net proceeds, Applicant states, will be used toward the payment of the costs incurred or to be incurred after July 31, 1948, for the purchase, construction, completion, extension or improvement of water works facilities, or to reimburse Applicant's treasury because of moneys actually expended from income or from other moneys in its treasury not secured by or obtained from the issue of securities so expended for the purchase, construction, completion, extension or improvement of water works facilities.

Applicant estimates its expenses incident to the issue and sale of said bonds and stock at \$40,000.

Applicant proposes to sell the \$1,500,000 of bonds through competitive bidding. It asks the Commission to exempt the issue and sale of the 80,000 shares of Cumulative Convertible Preferred Stock, Series D, from the provisions of Decision No. 38614, dated January 15, 1946. Applicant's president is of the opinion that because of the variable factors involved in the issue of a convertible preferred stock, e.g., dividend rate, conversion price and redemption price, it is not practical to sell said shares of convertible preferred stock through competitive bidding. The testimony shows that he has discussed in a general manner the sale of the shares of preferred stock with representatives of three groups of bankers. He testified that none of them was interested in the purchase of a straight preferred stock, but

that they have evinced an interest in the purchase of 80,000 shares of cumulative convertible preferred stock. Because of the condition of the preferred stock market, we believe that Applicant should be extended the opportunity to sell said shares of preferred stock on a negotiated basis. It should be understood, however, that if it does not receive a satisfactory price for the cumulative convertible preferred stock, the exemption granted by the following order will lapse.

Applicant will file a supplemental application, or applications, showing the price at which it proposes to sell the \$1,500,000 of bonds and 80,000 shares of cumulative convertible preferred stock.

O R D E R

A public hearing having been held on the above entitled application, 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 \$1,500,000 of First Mortgage 3-1/4% Bonds, Series C, due November 1, 1975, 80,000 shares of Cumulative Convertible Preferred Stock, and shares of common stock to persons who will surrender in exchange therefor shares of said cumulative convertible preferred stock, is reasonably required by California Water Service Company for the purposes herein stated, that such purposes, except for the payment of expenses incident to the issue of the bonds and accrued interest on the bonds, 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 on or before December 31, 1948, issue and sell, at a price to be fixed by the Commission in a supplemental order, \$1,500,000 of its First Mortgage 3-1/4% Bonds, Series C, due November 1, 1975.

2. California Water Service Company may, after the effective date hereof and on or before December 31, 1948, issue and sell, at a price to be fixed by a supplemental order, 80,000 shares of Cumulative Convertible Preferred Stock, Series D.

3. The issue and sale of said 80,000 shares of convertible preferred stock by California Water Service Company, provided it obtains for said shares a price satisfactory to the Commission, is exempt from the provisions of the order in Decision No. 38614, dated January 15, 1946.

4. California Water Service Company may, from time to time, issue shares of its common stock to persons who shall surrender in exchange therefor shares of its Cumulative Convertible Preferred Stock, Series D, such exchange to be upon the basis of the conversion price hereafter authorized by the Commission.

5. California Water Service Company shall use the proceeds obtained from the issue and sale of said bonds and said preferred shares of stock (a) to pay expenses incident to the

issue and sale of said bonds and said shares of preferred stock, (b) to discharge and pay notes issued for the purpose of defraying in part the cost of its 1948 construction program, and (c) to reimburse Applicant's treasury because of income or other moneys in its treasury not secured by or obtained through the issue of stocks or evidences of indebtedness authorized by the Commission, which were expended for the acquisition of property or for the construction, completion, extension or improvement of its water works facilities. The accrued interest may be used for general corporate purposes.

6. The authority herein granted to issue and sell bonds will become effective when the Commission, by a supplemental order, has fixed the price at which said bonds may be sold, and when Applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is one thousand two hundred fifty (\$1,250.00) dollars.

7. The authority herein granted to issue and sell 80,000 shares of cumulative convertible preferred stock will become effective when the Commission, by a supplemental order, has fixed the price at which said shares of stock may be sold. Except as provided in this paragraph and in paragraph "6" preceding, the authority granted by this order is effective upon the date hereof.

8. California Water Service Company shall file with the Commission, as soon as available, a copy of its registration statement, or statements, filed with the Securities and Exchange Commission covering the issue and sale of said bonds and said shares of preferred stock, and a copy of all exhibits referred to therein except such exhibits as have heretofore been filed with the Commission.

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

10. California Water Service Company shall file with the Commission, on or before June 30, 1949, a report showing in some detail the expenses incurred in connection with the issue and sale of said bonds and cumulative convertible preferred stock and the account, or accounts, to which such expenses were charged.

Dated at San Francisco, California, this 11th day of October, 1948.

R. Z. [unclear]
Justus J. Craven
Harold P. Kula
Herbert Potter

Commissioners

