

Decision No. 42871

ORIGINAL

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 it to
sell an additional amount of its
First Mortgage Bonds.

Application
No. 30294

O P I N I O N

California Water Service Company has applied to the Public Utilities Commission for permission to issue and sell \$970,000 principal amount of its First Mortgage 3½% Bonds, Series C, due November 1, 1975, at not less than 102% of the principal amount thereof plus accrued interest, and to use the proceeds to pay outstanding indebtedness.

Applicant 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.

In Exhibit "A" attached to the application, applicant reports its assets and liabilities as of March 31, 1949 as follows:

<u>Assets</u>		
Plants and properties, including construction work in progress of \$1,222,303.03		\$33,374,252.57
Line extension deposits not yet expended		296,250.97
Current assets-		
Cash	\$ 62,380.31	
Accounts receivable	220,419.21	
Materials and supplies	899,623.94	
Prepaid expenses	<u>51,908.83</u>	
Total current assets		1,234,332.29
Deferred charges and miscellaneous items		<u>109,587.24</u>
	Total	<u>\$35,014,423.07</u>

<u>Liabilities</u>		
Bonds		\$14,282,000.00
Serial notes		360,000.00
Current liabilities-		
Bank loans	\$450,000.00	
Notes and accounts payable	411,485.45	
Accrued liabilities	572,823.74	
Unearned revenue	39,846.17	
Dividends accrued on preferred stock	32,362.50	
Consumers' meter deposits	<u>32,611.05</u>	
Total current liabilities		1,539,128.91
Consumers' line extension deposits		1,326,249.69
Reserve for depreciation		4,630,924.25
Other reserves		48,143.13
Contributions in aid of construction		361,502.87
Unamortized premium on bonds		168,220.79
Preferred stock		5,475,000.00
Common stock		5,250,000.00
Capital surplus		72,889.52
Paid in surplus		672,925.37
Earned surplus		<u>777,438.54</u>
	Total	<u>\$35,014,423.07</u>

Applicant's outstanding bonds consisting of \$14,282,000 of first mortgage bonds are similar in their terms to those now proposed to be issued. The serial notes are dated November 5, 1945, mature in annual installments of \$60,000, and carry interest ranging from 1.6% to 2.2% per annum. The outstanding preferred stock includes \$3,475,000 of 4.4% cumulative preferred and

\$2,000,000 of 5.3% convertible cumulative.

The current liabilities shown on the balance sheet include \$450,000 of short term 2% unsecured bank loans. In April 1949 additional bank loans of \$850,000 were obtained, bringing the total presently outstanding up to \$1,300,000. The additional loans, it is said, were obtained for the purpose of providing funds to enable applicant to carry on its construction program. In this connection, it reports that its capital expenditures from August 1, 1948 to October 31, 1948 exceeded by \$199,396.51, the proceeds obtained through the issue of securities pursuant to the authority granted by Decision Nos. 42125, 42221 and 42222, and that, in addition, between November 1, 1948, and March 31, 1949, its net expenditures for fixed capital amounted to \$1,559,794.97 as shown in some detail in Exhibit "C" attached to the application.

In its application, applicant alleges that the net cash cost of its properties up to March 31, 1949, was \$30,279,562.76.

The application shows that \$25,420,085.83 of the net cash cost was obtained through the issue of bonds, serial notes and preferred and common stock, leaving a balance of \$4,859,476.93 which applicant states represents monies actually expended from income or other monies in its treasury not secured by or obtained from the issue of securities. Such balance, it is reported, in general was obtained from income credited to reserves for depreciation and amortization, income applied for amortization of premiums, discount and expenses on funded debt, income accumulated in earned surplus and bank loans.

Applicant now reports the necessity of obtaining additional funds through permanent financing to reduce its outstanding bank loans. Subject to receiving permission from the

Commission, it proposes to dispose of \$970,000 of bonds at private sale. It is now negotiating for the sale of such bonds and while the price at which they will be sold and the terms and conditions of such sale have not yet been determined finally, applicant anticipates that the purchase price will be not less than 102% of the principal amount plus accrued interest. Applicant proposes to pay Dean Witter & Company a commission not in excess of $\frac{1}{2}$ of 1% of the principal amount of said bonds for services in negotiating the sale of the bonds. At 102% of the face value, the effective interest rate, not considering expenses incident to the issue and sale, will be approximately 3.14%. In our opinion the bonds should be sold at not less than 102.66% of their face value plus accrued interest.

A review of the application clearly indicates that the company is in need of additional funds from outside sources to meet its obligations and to improve its cash position. Applicant intends at a later date to make further applications to the Commission for authority to issue additional bonds and stock to provide funds for the liquidation of the remainder of its bank loans and for other purposes.

An order authorizing the issue of the bonds as now requested will be entered.

O R D E R

California Water Service Company having applied to the Public Utilities Commission for permission to issue and sell \$970,000 of bonds, and the Commission having considered the matter, and being of the opinion that a public hearing is not

necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of said bonds is reasonably required for the purpose specified herein and that the expenditures herein authorized, other than those for 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 Service Company, after the effective date hereof and on or before June 30, 1949, may issue and sell, at not less than 102.66% of their face value plus accrued interest, not exceeding \$970,000 principal amount of its First Mortgage $3\frac{1}{2}\%$ Bonds, Series C, due November 1, 1975.

2. California Water Service Company shall use the proceeds to be received through the issue and sale of the bonds herein authorized, other than accrued interest, to pay outstanding bank loans. The accrued interest may be used for general corporate purposes.

3. Within thirty days after the issue and sale of the bonds herein authorized, California Water Service Company shall file with the Commission a report showing the date such bonds were sold, the price at which they were sold, the name or names of those to whom they were sold and the purposes for which the proceeds were used. It shall also file, as soon as available, a copy of the contract for the sale of the bonds and a statement showing in some detail the expenses incurred in connection with the issue and sale of the bonds and the account, or accounts, to

which said expenditures were charged.

4. The authority herein granted will become effective when California Water Service Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$970.00.

Dated at San Francisco, California, this 17th day of May, 1949.

R. J. [Signature]
James J. [Signature]
[Signature]

Commissioners

