

ORIGINAL

Decision No. 43156

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER SERVICE COMPANY,
a corporation,

Application
No. 30480

for an order authorizing it to
sell an additional amount of its
preferred stock.

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

O P I N I O N

For the purposes hereafter stated, California Water Service Company asks permission, in this application, to issue and sell 60,000 shares of its Cumulative Convertible Preferred Stock, Series E, of the par value of \$25 per share and, from time to time, issue shares of its common stock therefor, of the par value of \$25 per share, to persons who shall surrender in exchange therefor shares of applicant's Cumulative Convertible Preferred Stock, Series E, such exchange to be upon the basis of applicant's conversion price established in relation to said Cumulative Convertible Preferred Stock, Series E.

California Water Service Company is a California corporation. It serves with water at retail the following cities and communities and certain territory adjacent thereto, all located in the State of California: Redondo Beach, Hermosa Beach, East Los Angeles (Belvedere), Bakersfield, Visalia, Hanford, Los Altos, Menlo Park, Woodside, Atherton, San Carlos, San Mateo, Lomita Park, South San Francisco, Broadmoor Tract, Livermore, Danville, Concord, Crockett, Valona, Port Costa, Port Chicago,

Petaluma, Stockton, Dixon, Marysville, Willows, Oroville, Chico.

In addition to the above communities, applicant presently supplies water at wholesale to the City of Walnut Creek.

For the twelve months ended June 30, 1949, applicant reports operating revenues of \$5,692,375 and gross income, that is the amount available for the payment of interest and dividends, and for surplus, of \$1,263,382. Its interest and other fixed charges are reported at \$495,152, its dividend on preferred stock at \$217,120 and its dividend on common stock, at \$420,000, leaving \$131,110 for surplus.

As of June 30, 1949, applicant reports assets and liabilities as follows:

Assets

Plant, property and equipment		\$33,583,810.06
Less depreciation		<u>4,753,556.14</u>
		\$28,830,253.92
Intangible assets		1,218,388.26
Less amortization		<u>30,384.99</u>
		\$ 1,188,003.27
Total property, plant, equipment and intangibles		\$30,018,257.19
Miscellaneous investments		4,879.15
Special deposits		31,778.18
Line extension deposits		197,111.01
Current assets		1,342,546.51
Cash in banks and on hand	\$308,934.76	
Consumers accounts receivable-net	366,915.82	
Miscellaneous accounts receivable	11,626.91	
Materials and supplies	620,310.28	
Prepayments	34,758.74	
Miscellaneous deferred charges and expenses		<u>91,033.41</u>
Total assets		<u>\$31,685,605.45</u>

Liabilities

Capital stock - Par Value \$25 per share		\$10,725,000.00
Preferred Series C, 4.4% preferred cumulative	\$3,475,000.00	
Preferred Series D, 5.3% cumulative convertible	2,000,000.00	
Common	5,250,000.00	
First mortgage 3½% bonds, Series C, due Nov. 1, 1975		16,222,000.00
Serial notes due Nov. 1, 1950 to Nov. 1, 1955		360,000.00
Current Liabilities-		880,164.12
Serial note due Nov. 1, 1949	\$ 60,000.00	
Accounts payable	370,309.59	
Accrued interest	89,199.16	
Accrued taxes - general	6,530.12	
Miscellaneous accruals	9,482.83	
Charges billed in advance	37,992.42	
Federal income tax, estimated	241,082.04	
Accrued dividend on preferred stock	32,362.50	
Consumers' meter deposits	33,205.46	
Consumers line extension deposits		1,328,834.76
Miscellaneous reserves		20,266.66
Net premium on outstanding funded debt		204,646.21
Contributions in aid of construction		362,705.24
Capital surplus		73,527.50
Paid-in surplus		672,914.61
Earned surplus		<u>835,546.35</u>
 Total liabilities		<u>\$31,685,605.45</u>

Applicant's capitalization ratios, as of June 30, 1949, and such ratios after the issue of the 60,000 shares of Cumulative Convertible Preferred Stock, Series E, and the payment of a \$60,000 serial note are shown by the following statement:

<u>Item</u>	<u>June 30, 1949</u>	<u>Pro Forma</u>
	<u>%</u>	<u>%</u>
Bonds	56.30	53.62
Serial Notes	1.25	.99
Preferred Stock	19.00	23.05
Common Stock and Surplus	<u>23.45</u>	<u>22.34</u>
Total	<u>100.00</u>	<u>100.00</u>

In Exhibit "C", applicant reports that from May 1, 1949 to May 31, 1949 its net additions to fixed capital cost \$453,538.86. Excluding expenditures on jobs covered by deposits, applicant estimates its expenditures (Exhibit "D") for plant and property from June 1, 1949 to December 31, 1949 at \$1,542,936.

This amount is in Exhibit "D" segregated as follows:

Land	\$ 102,165
Structures	40,530
Wells	82,719
Storage	51,650
Pumping equipment	112,613
Purification system	16,188
Transmission mains	65,889
Distribution mains:	
Additions and replacements for betterment of service	421,940
Extensions for new consumers not covered by deposits	121,954
Services	245,955
Meters	91,000
Hydrants	77,876
Equipment	36,341
Purchase of Pacific Gardens Water Company property	76,116
Total	<u>\$1,542,936</u>

To finance its construction expenditures subsequent to May 1, 1949 either directly, or indirectly through the reimbursement of its treasury, applicant seeks authority to issue and sell, on a negotiated basis, 60,000 shares of its Cumulative Convertible Preferred Stock, Series E. It estimates its expenditures in connection with such stock issue at \$18,500. It proposes to use the net proceeds derived from the sale of said shares of stock for the following purposes: (a) \$453,538.86 to reimburse its treasury for moneys actually expended from May 1, 1949 to May 31, 1949 from income or from moneys in its treasury not secured by or obtained from the issue of securities and so expended for the acquisition of property or for the construction, completion, extension or improvement of facilities; (b) to apply the remainder of said net proceeds toward the payment of cost incurred or to be incurred after May 31, 1949 for the purchase, construction, completion, extension or improvement of waterworks facilities, or to the extent that such cost shall have been actually paid prior to the realization of said proceeds by applicant to reimburse its treasury for moneys actually expended from income

or from other moneys in its treasury not secured by or obtained from the issue of securities and so expended for the purchase, construction, completion, extension or improvement of waterworks facilities.

Applicant asks the Commission to exempt the issue and sale of said 60,000 shares of Cumulative Convertible Preferred Stock, Series E, from the provisions of Decision No. 38614, dated January 15, 1946. Applicant has not yet fixed the rate of dividend which said Series E shares of stock will bear, nor the conversion price nor the redemption price relative to said shares of stock. It proposes to fix such factors at or about the time it concludes its negotiations for the sale of said shares of stock.

Applicant's president testified that in his opinion applicant can obtain approximately \$1,500,000 at less cost if it issues a convertible preferred stock, rather than a straight preferred stock with no conversion privilege. He is further of the opinion that, because of the variable factors such as the dividend rate, the conversion price and the redemption prices involved in the issue of said shares of stock, as well as the small amount of the issue, there is some doubt as to whether applicant would obtain any bids for said shares of stock. Other reasons were given for the exemption of the issue and sale of said shares of stock from the provisions of said Decision No. 38614.

We believe that applicant should be extended the opportunity to sell said shares of stock on a negotiated basis. It should be understood however, that if applicant does not receive a satisfactory price for said shares of stock, the exemption granted in the following order will lapse. Applicant will, in due time, file a supplemental application showing the

price at which it proposes to sell said shares of stock and the terms of the 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 60,000 shares of Cumulative Convertible Preferred Stock, Series E, by California Water Service Company, and shares of common stock to persons who will surrender in exchange therefor shares of said Cumulative Convertible Preferred Stock, Series E, 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, after the effective date hereof and on or before October 15, 1949, may issue and sell at a price to be fixed by a supplemental order, 60,000 shares of its Cumulative Convertible Preferred Stock, Series E.

2. The issue and sale of said 60,000 shares of Cumulative Convertible Preferred Stock, Series E by California Water Service Company, provided it obtains for said shares a price satisfactory to the Commission is exempted from the provisions of the order in Decision No. 38614, dated January 15, 1946.

3. 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 E, such exchange to be made upon the basis of the conversion price hereafter authorized by the Commission.

4. California Water Service Company shall use the proceeds obtained from the issue and sale of said 60,000 shares of Cumulative Convertible Preferred Stock, Series E, to pay its expenses incident to the issue and sale of said shares of stock, and to reimburse its treasury because of income or other moneys in its treasury not secured by or obtained through the issue of stock or evidence 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, or to pay in part the cost of the additions or betterments referred to in Exhibit "D" on file in this application.

5. The authority herein granted to issue and sell said 60,000 shares of Cumulative Convertible Preferred Stock, Series E, will become effective when the Commission, by a supplemental order, has fixed the price at which said shares of stock may be sold. All other authority granted by this order is effective upon the date hereof.

6. 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.

7. California Water Service Company shall file with the Commission on or before December 31, 1949, a report showing in some detail the expenses incurred by it in connection with the issue and sale of said 60,000 shares of Cumulative Convertible Preferred Stock, Series E, and the account or accounts to which such expenses were charged.

Dated at San Francisco, California, this 9th day of August, 1949.

R. Z. Anderson

James H. Russell

Kenneth Patten

Commissioners