

ORIGINAL

Decision No. 44784

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)
preferred stock.)
-----)

Application
No. 31684

McCutchen, Thomas, Matthew, Griffiths & Greene,
by R. M. Brown, for applicant.

O P I N I O N

This is an application by California Water Service Company for an order authorizing it to issue and sell, exempt from the Commission's competitive bidding rule, 80,000 shares of Cumulative Preferred Stock, Series F, of the par value of \$25 each and of the aggregate par value of \$2,000,000, at a price hereafter to be fixed by the Commission, and to issue shares of common stock in exchange for said shares of preferred stock as may be required upon conversion of said shares of preferred stock, if it is decided by applicant to make the proposed preferred stock issue a convertible one.

Applicant has financed the cost of its properties primarily through the issue of first mortgage bonds, serial notes, and preferred and common stock, and through the use of earnings from operations. (1) In Exhibit A it reports its outstanding securities and its surplus accounts as follows:

(1) As of June 30, 1950, applicant reports its investment in plant, including construction in progress, at \$38,675,293.59, and its reserves for depreciation and amortization at \$4,983,572.27, leaving a balance of \$33,691,721.32.

3½% bonds, due 1975		\$17,822,000	56%
Serial notes, 1.7% to 2.2%		360,000	1%
Preferred stock, \$25 par value -			
Series C, 4.4%	\$3,475,000		
Series D, 5.3%	1,745,125		
Series E, 5.28%	<u>1,187,175</u>		
Total preferred stock		6,407,300	20%
Equity capital -			
Common stock, \$25 par value	5,769,800		
Surplus accounts	<u>1,761,850</u>		
Total equity capital		<u>7,531,650</u>	<u>23%</u>
	Total	<u>\$32,120,950</u>	<u>100%</u>

The shares of the preferred stock of Series D and Series E are convertible at the option of the holders thereof into shares of common stock at the rates of .9227 common shares for each share of Series D, and .914 common shares for each share of Series E.

The record shows that applicant now intends to create a new series of shares of preferred stock, to be known as Cumulative Preferred Stock, Series F, and to issue and sell 80,000 shares of such new series. It reports that it is unable at this time to state the price at which the shares will be sold, or the dividend rate, redemption price, or conversion features, should it decide to issue shares convertible into common shares. It does not expect, however, to sell said shares at a price less than their par value.

If authorized to issue and sell the shares of preferred stock as now proposed, applicant intends, and requests permission, to use \$79,372.32 of the net proceeds to pay a presently outstanding short-term bank loan; to use \$1,300,000 to reimburse its treasury for a portion of the moneys actually expended prior to July 1, 1950, for the construction, acquisition and improvement of its facilities; and to apply the remainder of the net proceeds toward the payment of costs incurred or to be incurred after July 1, 1950, for the purchase, construction, completion, extension or improvement of its plants and properties, or, to the extent that such costs shall have

been paid prior to the receipt of said proceeds, to reimburse its treasury. In support of its request to use stock proceeds for these purposes it shows, in Exhibit D, that between September 1, 1949, and June 30, 1950, it has expended the sum of \$1,300,552.96 for capital additions which has not been paid or provided through the issue of securities, and it reports, in Exhibit C, estimated expenditures of \$1,397,559 for the period from July 1, 1950, to December 31, 1950.

A review of the application and of the testimony introduced in support of it, clearly indicates that applicant has need for additional funds from outside sources for the purposes set forth, and that the issue of stock at this time is desirable.

There remains to be considered the request of applicant for exemption of the proposed issue from the Commission's competitive bidding rule. Applicant asserts that under present market conditions its shares of preferred stock cannot be sold at a satisfactory price unless some conversion privilege is granted. It points out that if a convertible preferred stock is to be issued, the conversion feature, the dividend rate and the market price of the proposed issue are dependent wholly on market conditions at the time the stock is sold and that the conversion feature is fixed in relation to the market price of the common stock at or about the public offering date. It feels that due to the time that must elapse between the publishing of an invitation for bids and the public offering date, it is impractical, if not impossible, to attempt to dispose of convertible stock at competitive bidding. Moreover it desires, if market conditions should improve sufficiently before it is ready to execute the underwriting agreement, to change its plans and to sell a nonconvertible preferred stock.

Applicant further reports that, based on its investigations, it is of the opinion that there is little interest in preferred stock issues by utilities its size or in issues the size of the proposed offering, and it doubts if a satisfactory bid would be received if it were to offer the proposed shares for sale at competitive bidding. Under the circumstances referred to, it has concluded that it can realize the best price for its proposed issue by negotiating a private underwriting commitment with a firm of investment bankers which is already familiar with its properties and operations.

Upon the record made in this particular proceeding, it appears that the Commission is warranted in granting the exemption requested by applicant.

Accordingly, a preliminary order will be entered at this time, authorizing the issue and sale of the shares of preferred stock, exempt from the Commission's competitive bidding rule, in line with applicant's requests. At a later date applicant should file a supplemental application setting forth the price, terms and conditions of the proposed issue, and containing a copy of the underwriting agreement for the sale of the shares of stock. At that time, the Commission will consider entering a further order in this proceeding giving final approval to the issue of said shares of preferred stock and authorizing the issue of shares of common stock in exchange therefor, should applicant conclude to issue a convertible preferred stock.

O R D E R

A public hearing having been held on the above entitled application, and the Commission having considered the matter and being of the opinion that the application should be granted, as

herein provided; that the money, property or labor to be procured or paid for through the issue and sale of the stock herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale of 80,000 shares of Cumulative Preferred Stock, Series F, by California Water Service Company hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, provided applicant makes arrangements for the sale of said shares at a price and upon terms satisfactory to the Commission.
2. California Water Service Company, after the effective date hereof and on or before December 31, 1950, may issue and sell said 80,000 shares of stock at a price hereafter to be fixed by the Commission.
3. California Water Service Company shall use the proceeds to be received through the issue and sale of said shares of stock to pay expenses incident to such issue and sale and to pay outstanding indebtedness, to reimburse its treasury, and to finance the cost of additions to its plants, as set forth in this application.
4. The authority herein granted to issue and sell said shares of stock will become effective when the Commission by a supplemental order has fixed the price at which applicant may sell the same. In other respects, the authority herein granted is effective upon the date hereof.
5. Within sixty (60) days after the issue and sale of said shares of stock, applicant shall file with the Commission

two (2) copies of its prospectus, and a report showing the amount of stock sold, the price at which sold, and the names of those to whom sold.

6. Within six (6) months after the issue and sale of said shares of stock, applicant shall file with the Commission a statement showing in some detail the expenses incurred by it in connection with such issue and sale and the account, or accounts, to which such expenses were charged, and a statement showing the purposes for which it used the proceeds received by it.

Dated at San Francisco, California, this 19th day of September, 1950.

R. J. Anderson
Justice F. Cramer
Charles H. Lowell

Commissioners