

ORIGINAL

Decision No. 46094

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. 32620

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

O P I N I O N

In this proceeding, California Water Service Company requests authorization to execute a Supplemental Mortgage of Chattels and Trust Indenture (Ninth Supplemental Indenture); to issue and sell, at private sale without inviting bids, \$3,000,000 in principal amount of First Mortgage 3-5/8% Bonds, Series D, due November 1, 1975, at a price to yield 3.6% to maturity, plus accrued interest; and to use the proceeds from such sale to pay bank loans and to reimburse its treasury, in part, for moneys expended prior to July 1, 1951, for the construction, acquisition and improvement of its facilities.

In support of its requests, applicant reports that up to June 30, 1951, the cost of its plant and property exceeded the net proceeds from earlier sales of securities by the amount of \$6,895,912.61, and that such excess had been provided by income credited to reserves for depreciation and amortization, by income applied toward amortization of premiums, discount and expense on funded debt, by income accumulated in earned surplus, and by net

current liabilities.⁽¹⁾ It reports, among other things, that at June 30, 1951, it had \$1,900,000 of outstanding short-term bank loans which had been incurred in meeting its current construction program, and that it may be necessary for it to increase such borrowings to \$2,400,000 as it proceeds with such program. In this connection it estimates its gross capital expenditures for the last six months of 1951 at approximately \$1,220,000, and for the year 1952 at not less than \$2,700,000, exclusive of refunds of consumers' advances for construction.

The application shows that applicant has not entered into any contract for the sale of its bonds. The testimony of its president indicates that numerous institutional investors were approached in connection with the proposed issue but that only three insurance companies had evinced any interest in the bonds and that they had indicated their willingness to acquire the entire issue on a yield basis of 3.6%. The witness offered testimony showing recent changes in prevailing interest levels and the experience of other utilities in disposing of bonds during this year and, on the basis of his survey, concluded that applicant can obtain a better price by means of a private placement of its bonds than it could by inviting bids for the purchase of them, considering the relatively small size of the proposed issue, the additional expenses and the delay which would be required in registering the bonds for a public offering, and the lack of interest he had observed on the part of underwriters for an issue such as that proposed. He pointed out that applicant's earnings have been declining⁽²⁾ and stated that in his opinion the

(1)

As of June 30, 1951, applicant reports current assets of \$1,622,816.44 and current liabilities of \$3,048,572.82.

(2)

Applicant reports earnings of \$2.70 a share of common stock in 1947, \$2.48 in 1948, \$2.59 in 1949, \$2.52 in 1950 and \$2.20 for the twelve months ended July 31, 1951.

present earnings would not permit the sale of shares of stock at this time. (3)

Applicant is engaged in supplying water to approximately thirty communities in the state. Its financial statements on file with the Commission show that its investment in fixed capital has increased from \$23,362,178 at the close of 1945 to \$42,781,452 on June 30, 1951, and its number of consumers from 105,110 to 169,489 during the same period. The record shows that applicant is faced with continuing expenditures to meet increasing demands for service, and that it will be necessary for it to issue securities to meet such demands. Upon the showing made in this proceeding, it is clear that it is in the public interest for the Commission to grant applicant's requests so as to enable it to obtain the additional funds now available to it.

The authority herein given is based upon applicant's representations in this matter and upon a review of its financial condition, as reflected by its statements, consideration being given to prevailing conditions. It is not to be construed that because of the order herein the Commission in the future will exempt this, or any other utility, from competitive bidding. It may well be that in connection with future issues circumstances and conditions then obtaining will not warrant such exemption.

(3)

Applicant's capital ratios, at present and giving effect to the proposed issue, are as follows:

	<u>At Present</u>	<u>Pro Forma</u>
Bonds	52.37%	56.23%
Serial notes	.70	.65
Preferred stock	23.18	21.30
Equity capital	<u>23.75</u>	<u>21.82</u>
Total	<u>100.00</u>	<u>100.00</u>

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence 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 bonds herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes, except as otherwise authorized, 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 December 31, 1951, may execute a Supplemental Mortgage of Chattels and Trust Indenture (Ninth Supplemental Indenture) in, or substantially in, the same form as that filed in this proceeding as Exhibit 1.

2. The issue by California Water Service Company of \$3,000,000 in principal amount of First Mortgage, 3-5/8% Bonds, Series D, as requested in this application, hereby is exempted from the requirements of the Commission's competitive bidding rule as set forth in Decision No. 38614, dated January 15, 1946.

3. California Water Service Company, after the effective date hereof and on or before December 31, 1951, may issue and sell said \$3,000,000 in principal amount of bonds at a price to yield 3.6% to maturity, plus accrued interest from May 1, 1951, for the purposes set forth in this application. The accrued interest may be used for general corporate purposes.

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

5. 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 two thousand (\$2,000.00) dollars.

Dated at San Francisco, California, this 20th day of August, 1951.

R. Z. [Signature]
James F. [Signature]
Harold A. [Signature]
John E. [Signature]
Herbert [Signature]
Commissioners

