

ORIGINAL

Decision No. 46341

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CITIZENS UTILITIES COMPANY OF CALI-)
 FORNIA, a corporation, for Authority)
 (a) to Issue 10,000 Shares of 5-1/2%)
 Cumulative First Preferred Stock, and)
 (b) to Issue a Thirty Year 3-1/2% Note)
 in the Principal Amount of \$1,325,000.)
 -----)

Application
No. 32763

George H. Johnston and Warren A. Palmer, for
applicant; John F. Donovan, for the staff of
the Commission.

O P I N I O N

This is an application for an order of the Commission authorizing Citizens Utilities Company of California, applicant herein, to issue \$1,000,000 par value of its 5-1/2% cumulative preferred stock and a 30-year, unsecured 3-1/2% note in the principal amount of \$1,325,000, for the purpose of paying or refunding outstanding indebtedness in favor of Citizens Utilities Company, a Delaware corporation. The indebtedness to be paid is described as follows:

- | | | |
|------|--|-----------------------|
| (i) | Promissory note, dated March 1, 1948, due March 1, 1973, at 3-1/2% interest. Issuance of this debenture was authorized by the Commission by Decision No. 41252 (Application No. 29060), dated February 24, 1948. | \$ 782,823.22 |
| (ii) | Advances on open account at 3-1/2% interest. The open account comprises the aggregate of cash advances used to finance construction programs and unpaid interest accrued on outstanding indebtedness. | <u>1,542,176.78</u> |
| | Total | <u>\$2,325,000.00</u> |

Applicant is a California corporation engaged as a public utility in operating water and telephone systems in various places in northern California, with general offices in Redding. It is a wholly owned subsidiary of Citizens Utilities Company, hereinafter referred to as the holding company, which is a Delaware corporation having headquarters in Greenwich, Connecticut, and, according to the record, has financed its investment in its assets largely with moneys provided by that corporation. Applicant's financial position as of June 30, 1951, as reflected by its balance sheet, is shown below:

<u>Assets</u>		
Fixed assets -		
Property, plant, equipment	\$3,433,237.53	
Construction work in progress	<u>455,001.02</u>	
Total fixed assets	3,888,238.55	
Less-depreciation reserves	<u>716,978.64</u>	
Net fixed assets		\$3,171,259.91
Other investments		12,000.00
Current assets		418,994.20
Deferred debits		<u>30,242.62</u>
	Total	<u>\$3,632,496.73</u>
<u>Liabilities and Net Worth</u>		
Due Citizens Utilities Company -		
Note payable	\$ 782,823.22	
Advances payable	<u>1,542,176.78</u>	
Total		\$2,325,000.00
Current and accrued liabilities		189,394.47
Deferred credits		46,608.37
Miscellaneous reserves		20,646.40
Contributions in aid of construction		9,831.28
Net worth -		
Common stock	500,000.00	
Capital surplus	114,165.65	
Earned surplus	<u>426,350.56</u>	
Total net worth		<u>1,041,016.21</u>
	Total	<u>\$3,632,496.73</u>

The outstanding note for \$782,823.22 represents the unpaid balance of indebtedness originally incurred in 1934 in refinancing applicant's properties. The advances of \$1,542,176.78 have been accumulated since 1948, according to the testimony in this proceeding,

and, except for \$27,757.22 representing accrued and unpaid interest, have been used for construction purposes.

The record shows that applicant's outstanding stock and note are pledged as collateral security for the outstanding bonds of the holding company and that a portion of the securities now proposed to be issued, the exact amount not yet having been determined, similarly will be so pledged. It appears that applicant does no public financing, its capital funds being provided by the holding company, in part at least, from the sale of its own securities. The testimony indicates that because of the terms of the trust indenture securing the payment of the holding company's bonds, the subsidiary (applicant herein) may not have any of its own securities outstanding in the hands of the public.

During the course of the hearing it developed that certain charges are made by the Greenwich office of the holding company for engineering and other services which are added to applicant's fixed capital accounts at the rate of 5% of the construction costs before overheads and that, in addition, applicant charges another 5% to cover the Redding office supervision and overhead. It appears, however, from a review of applicant's financial statements, that its expenditures for fixed capital, exclusive of the overhead charges, have been in excess of the amount of the advances it now proposes to refinance and that such expenditures, before overheads, are ample to warrant an order authorizing the issue of the stock and note as proposed by applicant.

In issuing the order in this proceeding the Commission is making no finding with respect to all the charges reported made by applicant to its fixed capital accounts, and it reserves the right to

inquire at a later date into the propriety of such charges and to order such adjustments as it may deem proper. In this connection, applicant's attention is directed to the provisions of the uniform system of accounts prescribed by this Commission for Class A and Class B telephone companies, which do not permit the addition to fixed capital accounts of arbitrary percentages or amounts to cover assumed overhead costs but, on the other hand, require the assignment to particular jobs and accounts of actual and necessary overhead expenditures.

It should be pointed out that the execution of the trust indenture by the holding company and the issue of bonds and stock by that company are matters which were not passed upon by this Commission. In the opinion of the Commission the outstanding securities of the holding company and the terms under which they were issued or at which they are being traded on the market do not provide a measure of value of applicant's properties for the determination of rates to be charged by applicant for its telephone and water service, or of the return which it should be authorized to earn on its investment in properties.

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 of the stock and note 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:

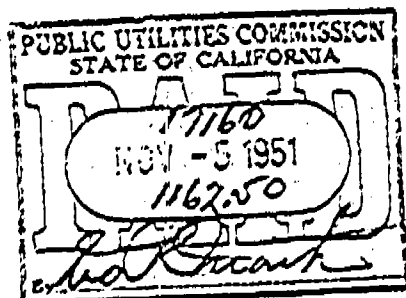
1. Citizens Utilities Company of California, after the effective date hereof and on or before March 31, 1952, may issue not exceeding 10,000 shares of its 5-1/2% cumulative first preferred stock, of the aggregate par value of \$1,000,000, to Citizens Utilities Company, a Delaware corporation, in part payment of indebtedness in favor of that company, except that no authorization is here granted to issue shares of stock in payment of such portion of said indebtedness which represents accrued and unpaid interest.

2. Citizens Utilities Company of California, after the effective date hereof and on or before March 31, 1952, may issue to Citizens Utilities Company an unsecured 3-1/2% promissory note, or notes, in the principal amount of \$1,325,000, for the purpose of paying indebtedness in favor of Citizens Utilities Company.

3. Citizens Utilities Company of California 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.

4. The authority herein granted will become effective when Citizens Utilities Company of California has paid the fee prescribed by Section 1904 of the Public Utilities Code.

Dated at San Francisco, California, this 30th day of October, 1951.



R. J. [Signature]
President
James F. [Signature]
Harold [Signature]
Benjamin [Signature]
John [Signature]
Commissioners