

**ORIGINAL**

Decision No. 47309

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application	)	
of	:	
CALIFORNIA WATER & TELEPHONE COMPANY	)	Application
	:	No. 33430
for a permit to issue and sell	)	
debentures.	:	
-----	)	

Bacigalupi, Elkus & Salinger, by Charles DeY.  
Elkus, Jr. and Charles Cole, for applicant.

O P I N I O N

In this application California Water & Telephone Company seeks an order exempting from competitive bidding a proposed issue of \$3,000,000 of 4-1/4% debentures due 1977 and authorizing the sale of such debentures at private placement at their face value plus accrued interest, for the following purposes:

- |   |                       |
|---|-----------------------|
| (a) To redeem all of applicant's outstanding 3-3/4% Sinking Fund Debentures in the principal amount of \$900,000 plus a premium of 3%   | \$ 927,000.00         |
| (b) To pay expenses in connection with the issuance and sale of said debentures, including fee for special counsel for the purchasers, and in connection with the redemption of said 3-3/4% Sinking Fund Debentures | 16,000.00             |
| (c) To provide funds to carry on applicant's 1952 construction program and to repay short term bank loans   | <u>2,057,000.00</u>   |
| Total   | <u>\$3,000,000.00</u> |

Applicant proposes to enter into contracts for the sale of its debentures to New York Life Insurance Company, Mutual Life Insurance Company of New York, Massachusetts Mutual Life Insurance Company and Bankers Life Insurance Company of Nebraska.

The application shows that the debentures will be issued under and pursuant to the terms of an open-end indenture which will permit applicant, subject to receiving authorization from the Commission, to issue additional debentures, in series, from time to time as applicant's board of directors may determine, the various series to have such interest rates and dates and other features, subject to the limitations set forth in the indenture, as the board may fix. No additional debentures may be issued, however, unless the net earnings for a period of twelve consecutive months ending not more than ninety days prior to the filing of an application with the trustee for such debentures shall have been at least two times the annual interest charges on the bonds or other obligations which rank prior to the debentures and on the debentures outstanding and those proposed to be issued, nor may any debentures be issued in an amount which would result in the funded debt of the company exceeding 62-1/2% of its capitalization.

It appears that applicant presently has outstanding \$900,000 of 3-3/4% debentures, originally in the total amount of \$1,000,000, which were issued under the terms of a closed indenture limited to \$1,000,000 which, by its terms, prohibits applicant, so long as any of said debentures are outstanding, from incurring any indebtedness other than ordinary accounts payable and that represented by bonds and certain other borrowings, as set forth in the indenture. For this reason it is necessary for applicant to redeem the presently outstanding issue in order to proceed with its proposed financing program.

The record shows that applicant is faced with the necessity of obtaining additional funds from outside sources and that after investigation it has concluded the issue of debentures, rather than some other form of security, should be undertaken at this time. In

its opinion the issue of shares of stock, either preferred or common, is not feasible at the present and the issue of bonds would increase the bond position in its capital structure to a higher level than would be desirable. On the other hand, the issue of debentures should provide a margin of plant expenditures upon which applicant can base future issues of bonds in the event it finds it necessary or desirable to issue them. In this connection, applicant's capital ratios as of March 31, adjusted to give effect to the issue of \$1,000,000 of bonds in April and the proposed ratios giving effect to the issue of the debentures, are shown below:

	<u>March 31, 1952</u>	<u>Pro Forma</u>
Bonds	52%	48%
Debentures	<u>3</u>	<u>10</u>
Sub-total	55	58
Preferred stock	16	15
Equity capital	<u>29</u>	<u>27</u>
Total	<u>100%</u>	<u>100%</u>

At the hearing held in this matter applicant presented testimony indicating that the terms of the debentures are in line with issues of approximately the same size made by other utilities. The testimony shows that recent issues of relatively small blocks of bonds were sold by other utilities on bases ranging from 3-1/2% to 3-7/8% and of debentures ranging from 4% to 4-7/8%. Applicant points out that in April of this year it sold its first mortgage bonds on a 3-7/8% basis, and it is of the opinion that a differential of 3/8 of 1% in marketing debentures is not unreasonable.

Applicant is of the opinion that better results can be obtained at this time by a negotiated placement than by means of an invitation for competitive bidding. It reports that the present negotiations have been conducted by its own officers with no payments to underwriters or others for finders' fees, that it will save the expense of registration with the Securities and Exchange Commission which it estimates might run as high as \$40,000, and underwriters'

commissions, and that after discussion with investment bankers it has concluded it would be questionable if any bids would be received, should they be solicited, at prices better than that proposed in this application. The testimony does not disclose any offerings of debentures by other utilities in recent months at competitive bidding.

Information filed with the Commission shows that for a number of years applicant has been engaged in a continuing construction program to meet demands of its customers for new and increased service. It reports its estimated expenditures during 1952 in the amount of approximately \$5,900,000, and it estimates that approximately \$700,000 of this amount will be obtained from internal sources leaving a balance of approximately \$5,200,000 to be realized through the issue of securities. The estimated expenditures are segregated as follows:

Telephone Department -	
Routine estimates	\$1,055,335
Specific estimates -	
Buildings and land	428,050
Central office equipment	1,578,630
Station equipment	292,530
Outside plant	<u>1,547,580</u>
Total Telephone Department	4,902,125
Water Department -	
Routine pipe line extensions	16,572
Hydrants	27,516
Services	122,365
Meters	70,736
Office equipment	18,910
Garage, shop & miscellaneous distribution equipt.	48,754
Cement lining of transmission and distribution mains	133,990
Additional filter tanks - Monterey	18,157
Pumping plants and additions thereto	40,724
Land	65,800
Additional storage facilities - Monterey	55,304
Transmission and distribution main extensions and renewals	316,978
Miscellaneous construction jobs	<u>117,193</u>
Total Water Department	<u>1,050,999</u>
Total	<u>\$5,953,124</u>

The Commission has received no protest to the granting of this application. Upon a review of the evidence it clearly appears that applicant has need for additional funds and that the Commission is warranted in exempting the proposed issue from competitive bidding.

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 by the issue of the debentures herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes, except the payment of redemption premiums, expenses and interest, 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 by California Water & Telephone Company of \$3,000,000 in principal amount of its 4-1/4% debentures hereby is exempted from the requirements of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946.

2. California Water & Telephone Company, after the effective date hereof and on or before September 30, 1952, may execute an indenture in substantially the same form as that filed in this proceeding as Exhibit B and may issue and sell said \$3,000,000 of debentures at the price of 100% of the principal amount thereof, plus accrued interest, for the purposes set forth in the debenture purchase agreement filed herein. The accrued interest may be used

for said purposes and for general corporate purposes.

3. California Water & Telephone Company shall file with the Commission a report showing the amount of debentures sold under the authority herein granted, the names of the purchasers, the date of the sale and the price at which the sale was made, such filing to be made within thirty (30) days after delivery of the debentures.

4. The authority herein granted will become effective when California Water & Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is one thousand five hundred fifty (\$1,550.00) dollars.

Dated at San Francisco, California, this 24<sup>th</sup> day of June, 1952.

[Signature]  
 President

[Signature]  
[Signature]  
[Signature]  
[Signature]  
 Commissioners

