

Decision No. 47644

ORIGINAL

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)
issue an additional amount of its)
convertible preferred stock and)
common stock upon conversion.)
-----)

Application
No. 33647

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

O P I N I O N

California Water Service Company has filed this application for authority to sell 80,000 shares of its Cumulative Convertible Preferred Stock, Series G, of the aggregate par value of \$2,000,000, by means of a negotiated underwriting.

In general, the purpose of the proposed issue is to repay outstanding bank loans, to reimburse the treasury for moneys expended prior to June 30, 1952, for construction, acquisition and improvement of facilities, and to finance in part construction costs to be incurred after June 30, 1952. Applicant reports that during the period from July 1, 1951, to June 30, 1952, its net expenditures for plant amounted to \$3,155,750.29 and that it met such costs with \$1,400,000 of proceeds from the sale of common stock, with \$650,000 obtained through short-term bank borrowings, and with \$1,105,750.29 derived from treasury funds. It estimates its gross expenditures for property, plant and equipment during the last six months of 1952 in the aggregate amount of \$1,325,152. While it has not yet completed a detailed estimate of construction for the year 1953, it believes that

its expenditures for this purpose will amount to not less than \$3,000,000.

A statement of applicant's assets, liabilities and net worth is shown in its Exhibit B, as follows:

Assets

Fixed capital -		
Plant, property rights	\$44,593,582.04	
Construction work in progress	<u>1,342,276.94</u>	
	45,935,858.98	
Depreciation and amortization reserves	<u>5,041,865.81</u>	
Net fixed assets		\$40,893,993.17
Uninvested line extension deposits		248,849.23
Current assets -		
Cash	551,734.17	
Accounts receivable	545,028.87	
Materials and supplies	663,627.79	
Prepaid expenses	<u>59,071.41</u>	
Total current assets		1,819,462.24
Other debits		<u>189,119.26</u>
		\$43,151,423.90
	Total	

Liabilities

Long-term debt		\$21,002,000.00
Current liabilities -		
Serial notes	\$ 60,000.00	
Short-term notes	650,000.00	
Accounts payable	376,218.88	
Accrued liabilities	801,926.61	
Consumers' deposits	<u>21,659.21</u>	
Total current liabilities		1,909,804.70
Line extension deposits		1,569,926.06
Miscellaneous reserves		18,758.23
Contributions in aid of construction		422,862.97
Unamortized premium on debt		570,379.60
Preferred stock		7,075,400.00
Equity capital -		
Common stock	8,239,575.00	
Paid in surplus	982,366.78	
Capital surplus	68,378.33	
Earned surplus	<u>1,291,972.23</u>	
Total equity capital		<u>10,582,292.34</u>
	Total	\$43,151,423.90

It clearly appears that applicant will have need for additional funds from external sources to pay bank loans and to enable it to proceed with its construction program. The effect of the presently proposed issue on applicant's capital ratios is indicated as follows:

	<u>June 30, 1952</u>	<u>Pro Forma</u>
Long-term debt	54.3%	51.7%
Preferred stock	18.2	22.2
Equity capital	<u>27.5</u>	<u>26.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>

If authorized by the Commission, applicant proposes to sell the shares of preferred stock by means of a negotiated underwriting. Applicant believes that the character and size of the proposed issue make it unsuitable for competitive bidding in that a convertible preferred stock necessarily involves such variable factors as price, dividend rate, conversion rate, redemption price, and voluntary liquidation preference. Although some of these features can be fixed somewhat in advance, the conversion price is related to the market value of the common stock at or about the offering date and hence applicant is of the opinion that due to the time that must elapse between the publishing of an invitation for bids and the date set for opening the same, it is unlikely that bids would be received in the case of a sale of stock with conversion features.

Applicant reports that it is important that its securities be distributed in its service area so far as possible and it believes that such distribution can best be accomplished by negotiations with investment bankers who are familiar with applicant's problems and have participated in the past in the marketing of its securities and who can be expected to sell a considerable portion of additional shares locally. At present 79% of its outstanding shares of stock are held by residents of California, the average holding being 87 shares of a total par value of \$2,175.00.

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 in line with applicant's request. At a later date, upon the filing of additional information with respect to the terms of the shares of preferred stock and the price at which applicant proposes to dispose of them, we will give further consideration to this application.

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 shares of 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 Convertible Preferred Stock, Series G, 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.
2. California Water Service Company, after the effective date hereof and on or before December 31, 1952, 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 from the sale of said 80,000 shares of stock for the purposes set forth in this application.

4. The authority herein granted to issue and sell said shares of preferred 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 three (3) 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, together with a statement showing the purposes for which the proceeds were used.

Dated at San Francisco, California, this 2nd day of September, 1952.

R. J. [Signature]
President
Justin F. Casimir
[Signature]
[Signature]
Commissioners