

ORIGINAL

Decision No. 48765

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 )  
First Mortgage Bonds. )  
----- )

Application  
No. 34422

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

O P I N I O N

California Water Service Company filed this application on June 5, 1953, for authorization to execute a Supplemental Mortgage of Chattels and Trust Indenture (Tenth Supplemental Indenture) and to issue and sell \$2,000,000 in principal amount of its First Mortgage 4-1/8% Bonds, Series E, due November 1, 1975, by means of a private placement at their principal amount plus accrued interest from May 1, 1953, to the date of issue.

A public hearing was held in San Francisco before Examiner Coleman on June 24, 1953, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The purpose of the proposed financing is to provide applicant with funds to pay outstanding bank loans and to reimburse its treasury for capital expenditures prior to May 1, 1953, which had not been paid or provided through the issue of securities. The application shows that at April 30, 1953, applicant was indebted to

banks in the amount of \$1,400,000 representing short-term borrowings for construction purposes, that the cost of its plant and properties up to that date exceeded the net proceeds from earlier sales of securities by the sum of \$7,271,119.11; and that such excess had been financed, in general, by appropriations for depreciation and amortization, by accumulations in earned surplus and by net current liabilities.<sup>1/</sup> Since April 30 applicant has increased its bank borrowings to \$2,000,000.

The record shows that applicant has budgeted for the year 1953 gross capital expenditures of \$3,652,123 and that while a substantial part of this amount has been expended, there remain unexpended balances for the last eight months of the year of \$2,209,636. It appears that the proposed issue will be required to pay the bank loans and will produce no additional funds for capital purposes for the remainder of the year and that applicant will engage in additional bank borrowings or permanent financing later in the year as it proceeds with its program. Tentatively it is contemplating \$2,000,000 of equity financing.

Applicant's capital ratios as of April 30, 1953, and after giving effect to the presently proposed bond issue, are as follows:

	<u>April 30, 1953</u>	<u>Pro Forma</u>
Bonds	51.6%	53.8%
Serial notes	.4	.4
Preferred stock	18.6	17.7
Equity capital	<u>29.4</u>	<u>28.1</u>
Totals	<u>100.0%</u>	<u>100.0%</u>

<sup>1/</sup> As of April 30, 1953, applicant reports current assets of \$1,934,300.99 and current liabilities of \$2,998,556.94, including the \$1,400,000 of short-term bank loans.

The obtaining of \$2,000,000 of additional equity capital will restore applicant's capital ratios to the present amounts.

Applicant reports that it has not entered into any contract for the sale of its bonds but that it has tentative commitments from New York Life Insurance Company, Equitable Life Insurance Company of Iowa, Bankers Life Company and the Pennsylvania Railroad Pension Fund for the purchase of the \$2,000,000 of bonds, at 100% of the principal amount thereof plus accrued interest. Applicant reports that it has taken steps to negotiate a private sale in the belief that it will obtain the best price for its bonds and that it will save substantial expenses by the elimination of the registration statement, which would be required by public bidding. A witness called on behalf of applicant gave testimony showing changes in prevailing interest levels and the experience of other utilities in disposing of bonds during this year. The witness stated that in his opinion the company's earnings did not permit the sale of shares of stock at this time.

The record clearly shows that applicant is faced with continuing expenditures to meet increasing demands for service, that it will be required to issue securities from time to time to meet these demands, and that upon the basis of the showing made in this proceeding the Commission is warranted in authorizing the issue of bonds, as requested by applicant, and in exempting such issue from its competitive bidding requirements.

#### ORDER

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 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, on and after the effective date hereof and on or before December 31, 1953, may execute a Supplemental Mortgage of Chattels and Trust Indenture (Tenth Supplemental Indenture), in, or substantially in, the same form as that filed in this proceeding as Exhibit 2.

2. The issue by California Water Service Company of \$2,000,000 in principal amount of First Mortgage, 4-1/8% Bonds, Series E, 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, on and after the effective date hereof and on or before December 31, 1953, may issue and sell said \$2,000,000 in principal amount of bonds at 100% of the principal amount, plus accrued interest from May 1, 1953, 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 1904(b) of the Public Utilities Code, which fee is \$1,500.00.

Dated at San Francisco, California, this 30<sup>th</sup> day of June, 1953.

[Signature]  
President.

[Signature]

[Signature]

[Signature]

Commissioners

Commissioner Justus F. Graemer, being necessarily absent, did not participate in the disposition of this proceeding.

