

ORIGINAL

Decision No. 49214

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. 34751

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

O P I N I O N

This is an application for an order of the Commission authorizing California Water Service Company to issue and sell not to exceed 80,000 shares of Cumulative Convertible Preferred Stock, Series H, of the par value of \$25 each and of the aggregate par value of \$2,000,000, by means of a negotiated underwriting, and to issue shares of common stock.

The application was filed with the Commission on September 24, 1953. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on October 7, 1953, at which time the matter was taken under submission.

The 80,000 shares will constitute a new series of preferred stock. They will be convertible into shares of common stock, will be entitled to cumulative dividends and will be redeemable at such rates as hereafter will be determined by applicant's board of directors. Applicant seeks authorization to dispose of the shares by means of a negotiated underwriting and in this connection it alleges that the character of the proposed series makes it unsuitable for competitive

bidding in that an offering of convertible preferred stock necessarily involves such variable factors as price, dividend rate, conversion rate, redemption price and voluntary liquidation preferences and that while some of these factors can be fixed somewhat in advance of the offering date, the conversion price should be fixed in relation to the market value of the common stock at or about the public offering date of the shares of preferred stock, which is impracticable under competitive bidding.

Approximately 80% of applicant's stock is held in its service area and applicant believes it is advantageous for its new securities to be distributed in its territory, so far as possible. It has concluded that such distribution can best be assured by negotiations with investment bankers who have handled its earlier issues and who are familiar with its problems and who can be expected to sell a considerable portion of the additional shares locally. A witness for applicant testified that his investigation indicates that applicant should obtain a better price, with better distribution and with lower costs of issuance, by means of a negotiated, rather than a competitive, underwriting.

If authorized to issue and sell its shares of preferred stock, applicant proposes to use the net proceeds to pay outstanding short-term indebtedness now in the amount of \$250,000, and to reimburse its treasury for moneys expended prior to September 1, 1953, for the acquisition, construction, completion, extension or improvement of its facilities. It reports that it is faced with a continuing program of expansion. During the first eight months of 1953 it added 3,229 new customers to its lines and acquired 5,657 new customers with the purchase of the properties of Suburban Water Company, and it estimates 3,675 additional new services during the last four months

of the year, making total additions for the twelve months of 17,561. Its capital expenditures for the acquisition of property, including the purchase of Suburban Water Company, for refunds of line extension deposits, for payment of serial notes and sinking fund deposits will amount to \$4,946,123 for the year and expenditures for 1954 are estimated at approximately \$4,300,000, including refunds of line extension deposits.

In presenting its application to the Commission applicant has filed its financial statement as of August 31, 1953, showing its assets, liabilities and capital as of that date as follows:

Assets

Fixed capital less depreciation reserve		\$46,729,602.95
Uninvested line extension deposits		262,902.30
Current assets -		
Cash	\$ 805,906.41	
Accounts receivable	772,013.68	
Material and supplies	715,662.08	
Prepaid expenses	859,108.43	
Total current assets		3,152,690.60
Other debits		<u>139,148.81</u>
	Total	<u>\$50,284,344.66</u>

Liabilities and Capital

Bonds and serial notes		\$23,470,000.00
Current liabilities -		
Notes and accounts payable	\$ 818,984.31	
Accruals	2,214,517.95	
Other current liabilities	<u>276,886.80</u>	
Total current liabilities		3,310,389.06
Line extension deposits		2,196,010.92
Contributions in aid of construction		486,049.29
Other credits		559,378.24
Preferred stock		7,316,675.00
Equity capital -		
Common stock	9,793,250.00	
Surplus	<u>3,152,592.15</u>	
Total equity capital		<u>12,945,842.15</u>
	Total	<u>\$50,284,344.66</u>

Analysis of the preceding balance sheet shows that applicant has financed itself, generally speaking, through the issue of bonds and shares of preferred and common stock and the retention of earnings and that it has incurred current liabilities in the amount of

\$3,310,389.06, exclusive of refundable line extension deposits, as compared with current assets of \$3,152,690.60.

The issue of shares of stock, as here proposed, will enable applicant to curtail its current obligations and to meet future capital costs and to improve not only its current position but also its capital ratios. These ratios, as of August 31, 1953, and as adjusted to give effect to the proposed financing, are as follows:

	<u>Aug. 31, 1953</u>	<u>Pro Forma</u>
Bonds	53.5%	51.2%
Serial notes	<u>.4</u>	<u>.4</u>
Subtotal--borrowed money	53.9	51.6
Preferred stock	16.8	20.4
Equity capital	<u>29.3</u>	<u>28.0</u>
Totals	<u>100.0%</u>	<u>100.0%</u>

Applicant has concluded to offer a convertible preferred stock at this time, rather than some other form of security, for the reason that in its opinion the issue of shares with a conversion privilege is the most practical and convenient method to reduce its debt ratio and to provide ultimately for increased common stock equity through the conversion of the new series of preferred stock from time to time into shares of common stock.

Upon a review of the record we are of the opinion that applicant has need for the proceeds from the proposed financing for the purposes indicated in this application and that we are warranted in exempting the proposed issue from competitive bidding and in making a preliminary order at this time authorizing the issue and sale of the shares of stock. At a later date, upon the filing of a supplemental application setting forth the terms of the new series of stock and the price at which applicant intends to sell the shares, we will give further consideration to this matter.

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 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 H, 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, on and after the effective date hereof and on or before February 28, 1954, may issue and sell said 80,000 shares of Cumulative Convertible Preferred Stock, Series H, 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 preferred stock for the purposes set forth in this application.
4. California Water Service Company from time to time may issue shares of its common stock of the par value of \$25 each to persons who shall surrender in exchange therefor shares of its Cumulative Convertible Preferred Stock, Series H, pursuant to the conversion right to be granted to such preferred stock.

5. Within 60 days after the issue and sale of said shares of preferred stock, applicant shall file with the Commission three 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 months after the issue and sale of said shares of preferred 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, and, in general, the purposes for which the proceeds were used.

7. The authority herein granted to issue and sell said shares of Cumulative Convertible Preferred Stock, Series H, 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.

Dated at San Francisco, California, this 20th day of October, 1953.

A. F. Anderson
President

James F. Callahan
Herbert J. Jotter
John E. Kibbell
James Duggins
Commissioners