

ORIGINAL

Decision No. 49622

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
  ) )  
  ) )  
  ) )  
CALIFORNIA WATER & TELEPHONE COMPANY )  
  ) )  
to issue and sell 120,000 shares of )  
its Cumulative Preferred Stock \$1.32 )  
Dividend Convertible Series. )  
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Application  
No. 35033

Claude N. Rosenberg and Tadini Bacigalupi, Jr.,  
for applicant.

O P I N I O N

California Water & Telephone Company has filed this applica-  
tion for authorization to issue and sell, by means of a negotiated  
underwriting, 120,000 shares of its Cumulative Preferred Stock, \$1.32  
Dividend Convertible Series, of the par value of \$25 each, at not  
less than \$25.50 a share. The shares will be convertible at the  
option of their holders into shares of common stock of the par value  
of \$12.50 each on the basis of a price of \$15.625 per share of common  
stock on or prior to February 1, 1959, a price of \$16.666-2/3 per  
share of common stock thereafter and on or prior to February 1, 1962,  
and at a price of \$17.8571 per share of common stock thereafter and  
on or prior to February 1, 1964.

The application was filed with the Commission on January 8,  
1954. Thereafter, a public hearing was held before Examiner Coleman  
in San Francisco on January 27, 1954, at which time the matter was  
taken under submission. The Commission has received no protest to  
the granting of applicant's requests.

The purpose of the proposed financing is to provide applicant with funds to meet part of the cost of extensions, additions and improvements to its properties during 1954 and to repay bank loans incurred in connection with its construction program. Applicant reports that presently it has outstanding \$475,000 of such loans but that it expects the amount will be increased by approximately \$300,000 during the early part of February. It reports it will require for construction purposes during the year the sum of \$6,500,000, segregated as follows:

Enlargement, replacement and extension of water distribution and transmission facilities	\$ 884,000
Hydrants, meters and service connections	212,000
Additions to central office equipment	1,777,000
Telephone instruments, private branch exchanges and special station apparatus	895,000
Aerial and underground cable and wire additions and replacements	2,138,000
Land and buildings	387,000
Office equipment, tools and vehicles	<u>207,000</u>
Total	<u>\$6,500,000</u>

Applicant estimates it will be required to pay expenses of approximately \$17,000 in connection with the issue and sale of the stock, leaving approximately \$3,043,000 of proceeds available for reimbursement of its treasury, the payment of indebtedness and the financing of its capital costs. It reports it will provide about \$1,000,000 of its requirements from internal sources during the year and at a later date will sell \$2,500,000 of bonds to complete its 1954 financing program. Applicant's capital ratios as of November 30, 1953, and as adjusted to give effect to the sale of the preferred shares covered by this application and to the subsequent sale of \$2,500,000 of bonds, are as follows:

	(1)	(2)	(3)
Long-term debt	49.9%	46.0%	49.2%
Preferred stock	11.2	17.9	16.9
Common stock equity	<u>38.9</u>	<u>36.1</u>	<u>33.9</u>
Totals	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

- (1) As of November 30, 1953  
 (2) Upon completion of sale of convertible preferred  
 (3) Upon subsequent sale of \$2,500,000 of bonds

From the testimony given at the hearing in this proceeding, it appears applicant is of the opinion that its capital structure calls for equity financing in order that its structure might be improved, that the issue under satisfactory terms of a preferred stock without conversion features is not possible under present conditions,<sup>1/</sup> and that it is not desirable for it to attempt to dispose of approximately \$3,000,000 of common stock at this time because of the effect on the market of an offering of this size. It hopes that through the issue of a convertible stock, as here proposed, it will accomplish additional equity financing under favorable terms when and as preferred stock is surrendered for conversion over a period of time. For these reasons it has chosen to offer a convertible preferred stock rather than some other form of security.

Subject to receiving authorization from the Commission, applicant proposes to sell its shares of stock under a negotiated arrangement to a syndicate headed by Blyth & Co., Inc. at not less than \$25.50 a share and accordingly it seeks exemption from the Commission's competitive bidding rule.<sup>2/</sup> A witness called by applicant stated in his opinion the proposed issue, because of its size, is not a suitable subject for competitive bidding in that it would not invite general underwriting interest and would result in delay in the offering of the shares. The witness asserted that now is a favorable time for the proposed financing and that applicant desired to avail itself of the opportunity afforded by prevailing conditions to obtain stock money under what he characterized were favorable terms. The witness testified it is of importance to applicant for

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<sup>1/</sup> The record shows that applicant's presently outstanding preferred shares without conversion features have been traded recently on a 5.75% basis.

<sup>2/</sup> It is contemplated the shares will be offered by the underwriters at \$27.00 each, a price yielding 4.89%.

its shares to be marketed so far as possible within its service area and he felt such a local distribution more likely could be obtained under a negotiated sale to underwriters who have placed its earlier issues and who are familiar with its operations. The record shows that approximately 85% of the presently outstanding stock is held in California.

Upon the record made in this particular proceeding, we are of the opinion that an order exempting the proposed issue from competitive bidding is warranted.

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 by California Water & Telephone Company of 120,000 shares of its Cumulative Preferred Stock, \$1.32 Dividend Convertible Series, 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 may issue and sell said 120,000 shares of stock, on or before April 30, 1954, at not less than \$25.50 a share and use the proceeds for the purposes set forth in this application.

3. California Water & Telephone Company from time to time may issue shares of its common stock of the par value of \$12.50 each to persons who may surrender in exchange shares of the Cumulative Preferred Stock, \$1.32 Dividend Convertible Series, pursuant to the conversion rights to be granted to such stock.

4. 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:

5. 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, together with a statement showing the purposes for which the proceeds were used.

6. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 2<sup>nd</sup> day of February, 1954.

R. F. [Signature]  
President

Justin J. Casner

Harriet Pottel

John E. [Signature]

James Bogerius  
Commissioners