

Decision No. 52008

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

Application
No. 37257

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 execute a supplemental mortgage of chattels and trust indenture (Twelfth Supplemental Indenture) and to issue and sell \$4,500,000 in principal amount of its First Mortgage 3-3/4% Bonds, Series G, by means of a private placement, at their principal amount plus accrued interest.

The application was filed on August 29, 1955. A public hearing thereafter was held in San Francisco before Examiner Coleman on September 16, 1955, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is engaged in the business of supplying and distributing water for domestic and industrial purposes in various places throughout the state. As of April 1, 1928, it executed a trust indenture and thereafter, from time to time, issued and sold first mortgage bonds under the terms of said indenture and eleven subsequent indentures supplemental thereto. At this time it reports

outstanding first mortgage bonds of several series, as follows:

Series C, 3-1/4% due 1975	\$17,822,000
Series D, 3-5/8% due 1975	3,496,000
Series E, 4-1/8% due 1975	1,992,000
Series F, 3.35% due 1979	<u>1,500,000</u>
Total	<u>\$24,810,000</u>

It appears that applicant now has taken steps to execute a twelfth supplemental indenture creating a new series of bonds, to be known as First Mortgage 3-3/4% Bonds, Series G. The bonds will be dated May 1, 1955, will mature November 1, 1980, and will be redeemable at a premium of 4% at the outset and at declining premiums thereafter. Subject to receiving authorization from the Commission, applicant proposes to sell \$4,500,000 of said Series G bonds, at their principal amount plus accrued interest, by means of a private placement with five institutional investors.^{2/} It therefore seeks exemption from the Commission's competitive bidding rule with respect to the sale of securities.

In support of its request, applicant asserts that it will receive a better price for these bonds if sold by means of a private placement than if offered at competitive bidding and that it will avoid substantial expenses which necessarily are incident to a public offering. The testimony shows that prevailing interest rates have been changing, with a general rising trend, that an offering of bonds can be timed better under a private placement arrangement with respect to the prevailing prices, because of the length of time incurred in registering a public offering, and that the risk of further increases in the cost of money can thereby be minimized.

^{1/} Tentative arrangements have been made for the sale of the bonds to the following:

New York Life Insurance Company	\$1,500,000
Occidental Life Insurance Company of California	1,000,000
John Hancock Life Insurance Company	1,000,000
Equitable Life Insurance Company	500,000
Lincoln Life Insurance Company	<u>500,000</u>
Total	<u>\$4,500,000</u>

Applicant's witness stated there were no figures available with respect to sales of bonds by other water utilities but that compared with recent sales of bonds by other classes of utilities the proposed price it is receiving is a favorable one.^{2/} The witness reported that it has been his experience that bonds of his company and other water companies sold at higher interest rates than the bonds of electric light and power companies and other utilities.

Should the sale of the bonds be consummated, applicant proposes to use the proceeds to repay bank loans representing temporary financing of capital expenditures and, to the extent such proceeds are not required for the repayment of bank loans, to reimburse its treasury for a portion of the moneys actually expended prior to August 1, 1955, for the acquisition, construction, completion, extension or improvement of its facilities which were not secured by or obtained from the issue of securities. In this connection, it reports capital expenditures made prior to August 1, 1955, of \$6,285,226 which had not been financed by the issue of permanent securities but which had been paid or provided by short-term bank loans of \$2,950,000 and by utilization of funds generated internally.

In commenting on its need for funds, applicant reports that during the first seven months of 1955 its capital expenditures, exclusive of the amounts provided by subdividers' advances, amounted to \$2,941,588 and that, in addition, it made cash refunds of

^{2/} The testimony shows that during August of this year The Pacific Telephone and Telegraph Company sold \$67,000,000 of debentures on a 3.53% basis, that during the same month California Electric Power Company sold \$6,000,000 of bonds on a 3.61% basis, and that during September Utah Power and Light Company sold \$15,000,000 of bonds on a 3.52% basis.

\$587,246, the two sums aggregating \$3,528,834. It estimates that for the last five months of this year it will be called upon to expend \$1,647,245 for capital purposes, making its total requirements for the year the sum of \$5,176,079. The testimony further shows that during the first seven months applicant added 6,051 customers to its lines and that it estimates it will add an additional 4,500 during the latter part of the year.

It has been applicant's practice to finance itself generally through the issue of long-term debt and shares of preferred and common stock. Its capital ratios as of July 31, 1955, and as adjusted to give effect to the presently proposed bond financing are as follows:

	<u>July 31, 1955</u>	<u>Pro Forma</u>
Bonds	50.2%	54.4%
Long-term notes	.1	.1
Preferred stock	14.3	13.1
Common stock equity	<u>35.4</u>	<u>32.4</u>
Totals	<u>100.0%</u>	<u>100.0%</u>

The record shows that while applicant would prefer to maintain its present capital ratios it is of the opinion that its earnings do not permit the sale of shares of stock at this time and that for this reason it has undertaken the sale of the additional bonds. According to the testimony, applicant earned its interest requirements 4.54 times during 1954, 4.35 times during the year ended July 31, 1955, and it estimates it will earn them 3.96 times based on the pro forma year 1955. It appears that presently its earnings on common stock amount to approximately \$2.50 a share, as compared with its prevailing dividend rate of \$2.20.

Upon reviewing this matter it clearly appears 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, and in exempting such issue from its competitive bidding requirements. In our opinion 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, which purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

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, therefore,

IT IS HEREBY ORDERED as follows:

1. California Water Service Company may execute a supplemental mortgage of chattels and trust indenture (Twelfth Supplemental Indenture), in, or substantially in, the same form as that filed in this proceeding as Exhibit D.

2. The issue by California Water Service Company of \$4,500,000 in principal amount of First Mortgage 3-3/4% Bonds, Series G, hereby is exempted from the requirements of the Commission's competitive bidding rule as set forth in Decision No. 38614, dated January 15, 1946, as amended.

3. California Water Service Company may issue and sell said \$4,500,000 in principal amount of bonds on or before December 31, 1955, at not less than 100% of the principal amount plus accrued

interest, for the purposes set forth in this application. The accrued interest may be used for such purposes or 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 applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,750.

Dated at San Francisco, California, this 4th day of October, 1955.

[Signature]
President

[Signature]
[Signature]
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Commissioners

