

Decision No. 54167

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. 38577

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 60,000 shares of Cumulative Convertible Preferred Stock, Series J, of the par value of \$25 each and of the aggregate par value of \$1,500,000, and to issue shares of common stock.

The proposed issue of 60,000 shares will constitute a new series of preferred stock, will be convertible after January 1, 1958 into shares of common stock at the rate of one share of preferred for 0.5754 shares of common stock, subject to further adjustments, will be entitled to cumulative dividends at the rate of 5.5% per annum and shall be redeemable, in whole or in part, on any dividend date on at least 30 days' prior notice, at a redemption price equal to \$26.75 a share from date of issuance to and including November 15, 1961, at \$26.50 a share from November 16, 1961 to and including November 15, 1966, at \$26.25 per share from November 16, 1966 to and including November 15, 1971, at \$26 per share from November 16, 1971 to and including November 15, 1976, and at \$25.50 per share thereafter, together with any accrued dividends in each case.

If authorized to issue and sell the shares of preferred stock, applicant proposes to use the net proceeds to reduce or repay bank loans then outstanding and to reimburse its treasury for monies expended prior to October 1, 1956, for the acquisition, construction, completion, extension or improvement of its facilities from income or other monies in said treasury not secured by or obtained from the issue of securities. It reports that it had net capital expenditures prior to October 1, 1956, for which its treasury has not been reimbursed, in the amount of \$7,666,980.39, and that it has a continuing need of funds from outside sources to finance its construction program. During the first nine months of 1956 it expended \$4,247,465 for utility plant and it estimates its gross expenditures for utility plant for the period from October 1, 1956 to December 31, 1956, excluding expenditures on projects which may be covered by advances for construction, at not less than \$620,003. Its present estimate of expenditures for utility plant during 1957 is approximately \$4,000,000.

In presenting its application to the Commission applicant has filed its financial statements as of September 30, 1956, showing its assets, liabilities and capital as of that date to be as follows:

Assets

Fixed capital less depreciation reserve		\$61,557,927.42
Other physical property less depreciation reserve		150,845.05
Uninvested advances for construction		322,901.50
Sinking funds		63,508.00
Current assets -		
Cash	\$ 860,552.13	
Accounts receivable	1,057,985.23	
Material and supplies	769,062.54	
Prepaid expenses	910,449.33	3,598,049.23
Other debits		<u>387,885.66</u>
Total assets		<u><u>\$66,081,116.86</u></u>

Liabilities and Capital

First mortgage bonds		\$29,188,000.00
Current liabilities -		
Notes payable	\$3,125,000.00	
Accounts payable	550,069.22	
Other current and accrued liabilities	<u>2,708,506.50</u>	6,383,575.72
Advances for construction		4,289,959.49
Contributions in aid of construction		629,808.54
Other credits		504,000.90
Preferred stock		6,551,000.00
Equity capital -		
Common stock	13,520,825.00	
Premiums on capital stock	1,868,032.97	
Surplus	<u>3,145,914.24</u>	<u>18,534,772.21</u>
Total liabilities and capital		<u><u>\$66,081,116.86</u></u>

Reviewing the preceding balance sheet, it will be noted that applicant has financed itself, generally speaking, through the issue of bonds, shares of common and preferred stock, through the retention of earnings and by the issue of short-term notes to banks as evidenced by the \$3,125,000 of notes payable listed under current liabilities.

Applicant by Decision No. 54022, dated November 5, 1956, in Application No. 38500 was authorized to issue and sell, at par,

\$3,000,000 of its First Mortgage Bonds and to use the proceeds to reduce its bank loans. Contracts for the sale of these bonds provide for a closing between December 1 and December 15, 1956. Applicant now advises that it is possible that a portion of the proceeds from the sale of the preferred stock herein proposed will be available prior to the date of the sale of its bonds. If such an event should occur, applicant desires to apply all such proceeds to the reduction of the outstanding bank loans.

To the extent that proceeds from the sale of preferred stock are utilized to reduce bank loans below \$3,000,000 applicant will file a supplement to Application No. 38500 requesting authority to reimburse its treasury to the extent of the excess of bond proceeds over the total amount of bank loans outstanding at the date of the sale of the bonds.

The issue of shares of stock, as herein proposed, will enable applicant to improve its current position through the liquidation of short-term indebtedness, will provide funds with which to finance, in part, the cost of future capital additions and will tend to improve its capital ratios. These ratios, as of September 30, 1956, and as adjusted to give effect to the \$3,000,000 bond issue authorized by Decision No. 54022 and as adjusted to give effect to such bond issue and the sale of the preferred stock herein proposed are as follows:

	Sept. 30, <u>1956</u>	<u>Pro Forma Adjusted for Bonds</u>	<u>Bonds and Preferred Stock</u>
Bonds	53.8%	56.2%	54.8%
Preferred stock	12.1	11.4	13.7
Common stock equity	<u>34.1</u>	<u>32.4</u>	<u>31.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Applicant has concluded to offer a cumulative 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.

Applicant also seeks authorization to issue shares of its common stock from time to time in exchange for such shares of preferred stock as may be surrendered for conversion.

Upon a review of the application we are of the opinion that applicant has need for the proceeds from the proposed financing for the purposes indicated in this application. The approval hereinafter granted is for the issuance of shares of preferred and common stock only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, 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 preferred and common 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. California Water Service Company, on and after the effective date hereof and on or before June 30, 1957, may issue and sell 60,000 shares of Cumulative Convertible Preferred Stock, Series J, of the par value of \$25 per share, at not less than par and may issue from time to time shares of its common stock to persons who shall surrender in exchange therefor shares of its Cumulative Convertible Preferred Stock, Series J, such exchange to be made upon the basis of the conversion price applicable to such series of Cumulative Convertible Preferred Stock, Series J.

2. California Water Service Company shall use the proceeds to be received from the sale of said 60,000 shares of preferred stock for the purposes set forth in this application.

3. 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.

4. 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.

5. The authority herein granted will become effective on the date hereof.

Dated at Los Angeles, California, this 4th day of December, 1956.

John E. Nibbel President
Walter L. ...
...
P. Hardy
E. L. Fox Commissioners