

ORIGINAL

Decision No. 56932

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application

of

CALIFORNIA WATER & TELEPHONE COMPANY

to issue and sell 200,000 shares of  
its Cumulative Preferred Stock,  
\$1.24 Dividend Convertible Series,  
and to issue common stock upon  
the conversion thereof.

Application No. 40151

Bacigalupi, Elkus & Salinger, by  
Charles de Y. Elkus, Jr., for  
applicant.

O P I N I O N

California Water & Telephone Company has filed this application for authorization to issue and sell 200,000 shares of its Cumulative Preferred Stock, \$1.24 Dividend Convertible Series, of the par value of \$25 per share and of the aggregate par value of \$5,000,000.

The application was filed with the Commission on June 5, 1958. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on June 25, 1958, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The 200,000 shares will constitute a new series of preferred stock. The holders of such series will be entitled to receive cumulative dividends at the rate of \$1.24 a share per annum, payable quarterly. The shares will be redeemable at their par value of \$25 each, plus accrued and unpaid dividends, plus a premium per share as follows:

On or prior to August 1, 1963 . . . . .	\$1.50
Thereafter and on or prior to August 1, 1964	1.25
Thereafter and on or prior to August 1, 1965	1.00
Thereafter and on or prior to August 1, 1966	.75
Thereafter and on or prior to August 1, 1967	.50
Thereafter and on or prior to August 1, 1968	.25
Thereafter . . . . .	None

The holders of the shares of the new series at any time on or prior to August 1, 1968, may convert such shares at \$25 each into fully paid shares of common stock upon an initial basis, as follows:

In the case of shares of said \$1.24 Dividend Convertible Series converted on or prior to August 1, 1963 at a price of \$23.8095 per share of common stock;

In the case of shares of said \$1.24 Dividend Convertible Series converted after August 1, 1963, and on or prior to August 1, 1968, at a price of \$25 per share of common stock.

Subject to receiving authorization from the Commission, the company proposes to sell 200,000 shares of preferred stock by means of a negotiated underwriting at not less than \$23.25 a share and it therefore seeks exemption from the Commission's competitive bidding rule. It asserts that, upon its basis of investigation and experience, better results can be obtained at

the present time by a sale under negotiated arrangements rather than at competitive bidding because there is greater flexibility in gearing the transaction to changes in economic conditions and in making the necessary advance market preparation.

The company seeks to sell shares of preferred stock at this time instead of some other form of security, in order to take advantage of what appears to be a favorable market for its convertible preferred stock and also to improve its capital ratios by establishing a larger base of permanent equity capital to support future debt financing which will become necessary as it proceeds with its construction activities. Its capital ratios, as of April 30, 1958, and as adjusted, are as follows:

	<u>April 30,</u> <u>1958</u>	<u>As</u> <u>Adjusted</u>
Bonds	39.5%	37.1%
Debentures	<u>9.9</u>	<u>9.3</u>
Subtotal	49.4	46.4
Preferred stock	11.4	16.8
Common stock equity	<u>39.2</u>	<u>36.8</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Upon selling its shares of preferred stock, applicant proposes to use the proceeds, after paying expenses incident to the issue which are estimated at \$23,500, to reimburse its treasury for moneys expended for construction, completion, extension and improvement of its facilities which were not obtained from the sale of evidences of ownership or indebtedness, to repay short-term bank loans and to finance construction costs. Applicant

reports expenditures of \$14,632,078 prior to March 31, 1958, which had been financed with treasury cash, and it estimates its short-term bank loans will amount to \$650,000 by the time its stock money becomes available. In addition, it reports that it is engaged in a construction program which will result in expenditures during 1958 of approximately \$12,843,000 for additions and improvements to its plant.

Upon a review of the record, it is clear that applicant will have need for external funds to replenish its treasury and that, on the basis of the information before us, an order is warranted authorizing it to proceed with the sale of shares of preferred stock exempt from competitive bidding. In our opinion, the money, property or labor to be procured or paid for by the issue of the shares of the stock herein authorized is reasonably required for the purposes specified herein which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The authorization herein granted is for the issue and sale of the shares of preferred stock 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.

ORDER

A public hearing having been held on the above-entitled matter and the Commission having considered the matter and being of the opinion that the application should be granted, therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale by California Water & Telephone Company of 200,000 shares of its Cumulative Preferred Stock, \$1.24 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, as amended.

2. California Water & Telephone Company, on and after the effective date hereof and on or before December 31, 1958, may issue and sell said 200,000 shares at not less than \$23.25 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 such number of shares of common stock as may be required upon surrender to it, for conversion, of shares of Cumulative Preferred Stock, \$1.24 Dividend Convertible Series.

4. California Water & Telephone Company shall file with the Commission a report, or 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 on the date hereof.

Dated at San Francisco, California, this 8<sup>th</sup> day of July, 1958.

*E. Lynn Fox*  
President  
*Walter E. Mitchell*  
*Paul J. Ostermer*  
*William J. Cole*  
*Theodore Jenner*  
Commissioners