A.41077 MON

ORIGINAL

Decision No. 58548

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 bonds } Application No. 41077

Bacigalupi, Elkus & Salinger, by Tadini Bacigalupi, Jr., for applicant.

O P I N I O N

California Water & Telephone Company has filed this application for authorization (1) to execute a supplemental indenture creating and defining the terms of a new series of bonds to be known as First Mortgage Bonds, 4-7/8% Series due 1986, and (2) to issue and sell $5,000,000 of such bonds.

The application was filed on April 24, 1959. A public hearing was held before Commissioner Jenner and Examiner Coleman in San Francisco, on May 18, 1959, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The new bonds will bear interest at the rate of 4-7/8% per annum, will mature November 1, 1986, and will be callable on and after May 1, 1959 and prior to November 1, 1964, at a premium of 5% and thereafter at annually decreasing premiums, provided, however, that said bonds may not be redeemed prior to May 1, 1964, directly or indirectly, from, or in anticipation of, any borrowings by the company or the proceeds of the sale of any securities of the company. Applicant proposes to sell the $5,000,000 of bonds at their face value, plus accrued interest, to seven institutional buyers as follows:

California State Employees Retirement System	$1,000,000
California State Teachers Retirement System	1,000,000
John Hancock Mutual Life Insurance Company	1,000,000
Continental Assurance Company	750,000
Occidental Life Insurance Company	500,000
New England Mutual Life Insurance Company	500,000
Central Standard Life Insurance Company	250,000
Total	$5,000,000

In order to proceed with its plans to dispose of its bonds by negotiated arrangements, applicant requests the Commission to exempt the issue from its competitive bidding rule.

The proceeds to be received from the sale of the $5,000,000 of bonds will be utilized to pay expenses incident to the issue, which are estimated at approximately $24,600, to pay outstanding bank loans, to reimburse the treasury for funds expended for construction and improvement of facilities which were not obtained from the sale of evidences of ownership or indebtedness, and to finance 1959 construction costs. In Exhibit A, applicant reports capital expenditures as of February 28, 1959, of $12,643,608, which had been financed with treasury cash, and which have not been reimbursed through the issue of securities, and it sets forth its estimated construction budget for the year 1959 as follows:

	Gross Additions	Net Additions	Cash Required
Enlargement, replacement and extension of water distribution and transmission facilities, wells and water treatment	$ 946,500	$ 869,700	$ 945,000
Improvement, replacement and additions to reservoirs and tanks	100,800	91,700	100,800
Hydrants, meters and service connections	374,000	360,400	376,700
Additions to central office equipment	2,301,400	2,210,200	2,153,900
Telephone instruments, private branch exchanges and special station apparatus	2,695,500	2,205,100	2,713,800
Aerial and underground cable and wire additions and replacements	4,615,000	3,855,800	4,587,200
Land and buildings	1,345,300	1,327,000	1,083,500
General equipment, tools and vehicles	373,200	308,700	362,800
Total	$12,751,700	$11,228,600	$12,323,700

Upon reimbursing its treasury, as herein proposed, the proceeds from the sale of the bond issue will be available to applicant for construction purposes. In addition, applicant estimates that approximately $4,000,000 of internal funds will be generated during 1959 to meet capital requirements and it reports that equity financing will be undertaken during the coming winter months. Applicant's capital ratios as of March 31, 1959, and as adjusted to give effect to the presently proposed financing, are as follows:

	March 31, 1959	Pro Forma
First mortgage bonds	37.2%	40.9%
Debentures	9.3	8.7
Preferred stock	16.0	15.1
Common stock and surplus	37.5	35.3
Total	100.0%	100.0%

From a review of applicant's financial statements it appears that it will have need for funds from external sources if it is to proceed with its construction program and that applicant's capital structure and earnings are adequate to support the proposed bond issue. With respect to exemption from competitive bidding the testimony offered in support of applicant's request shows that applicant has had extensive negotiations for the sale of the securities; that the terms and conditions finally determined compare favorably with those obtained by other utilities; and that there will be substantial savings in the expense of issuing the securities if the negotiated sale were to be accomplished, such savings occurring primarily because the issue will not be registered with the Securities and Exchange Commission and because no finder's fees or commissions are to be paid. The record indicates that interest rates have been advancing since the time applicant negotiated the sale of the bonds and it is apparent that the saving in time under a negotiated arrangement, as compared with competitive bidding, in a declining market, is of considerable advantage. As compared with applicant's 4-7/8% coupon, bonds of similar quality issued by other utilities subsequent to April 1, 1959, the date when applicant made its arrangements, have been offered at interest rates in excess of 5%. It seems unlikely that applicant could sell a 4-7/8% bond, at face value, at this time should it be required to submit the issue to competitive bidding.

As to the restricted redemption features of the proposed bond issue, a study of public utility bond offerings in 1959 indicates that some such features are almost universally required in present-day debt financing, especially in the case of bonds rated as single A or BAA. The evidence given at the hearing shows that applicant's financial officer discussed the proposed sale with approximately 15 possible purchasers; that some refused to consider a coupon rate of less than 5%; that some refused to consider an issue without protective redemption provisions; and that all indicated a higher interest rate would have to be paid in the absence of such a protective feature.

Upon the basis of the information before us, we are of the opinion that an order is warranted authorizing the issue of the bonds under the terms set forth in this proceeding and exempting the proposed issue from the Commission's competitive bidding rule.

The authorization herein granted for the issue of bonds shall not 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

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, that the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein and that such purposes, except as otherwise authorized, are not in whole or in part, reasonably chargeable to operating expenses or to income; NOW THEREFORE, IT IS HEREBY ORDERED as follows:

1. The issue by California Water & Telephone Company of First Mortgage Bonds, 4-7/8% Series due 1986, hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended.

2. California Water & Telephone Company may execute a supplemental indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit C, and may issue and sell said $5,000,000 of First Mortgage Bonds, 4-7/8% Series due 1986, at not less than the principal amount thereof, plus accrued interest, for the purposes indicated herein. The accrued interest may be used for said purposes or for general corporate purposes.

3. California Water & Telephone Company shall file a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when California Water & Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $3,000.

Dated at San Francisco, California, this 2nd day of June, 1959.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
16222
JUN 2 1959
BY

President

Commissioners