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Decision No. 71572

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. 48884 Filed October 21, 1966

McCutchen, Doyle, Brown, Trautman & Enersen, by
Hazel Flagler, for applicant;
Sidney J. Webb for the Commission staff.

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 First Mortgage Bonds in the principal amount of $3,000,000 and to execute and deliver a supplemental indenture.

After due notice, a public hearing in this matter was held before Examiner Donovan in San Francisco, on November 10, 1966, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a California corporation engaged in the business of supplying and distributing water for domestic and industrial purposes in various areas in California. Reports on file with the Commission disclose that the company's gross operating revenues and net income for the twelve months ended

August 31, 1966 were $20,467,389 and $3,112,019, respectively, and that the number of customers served on said date totaled 242,768.

In its August 31, 1966 balance sheet, applicant shows an investment of $84,163,718 in net utility plant. On the basis of such balance sheet, the company's capital ratios, excluding $2,505,521 of contributions in aid of construction, and adjusted to give effect to the $3,000,000 bond issue proposed herein, are as follows:

Long-term debt	47%
Advances for construction	10
Preferred stock	5
Common stock equity	38
Total	100%

The application indicates that outstanding short-term bank loans as of August 31, 1966 amounted to $1,500,000, which sum was used to defray the cost of the company's construction program. Applicant estimates that gross construction expenditures for utility plant, excluding projects covered by advances for construction, will total at least $2,398,524 during the last four months of 1966 and $4,000,000 for the year 1967. According to Exhibit C, attached to the application, the utility's unreimbursed net capital expenditures as of August 31, 1966 aggregated $23,474,185.

The proposed bond issue will be designated First Mortgage 6-1/4% Bonds, Series K, and will be secured by an existing Mortgage of Chattels and Trust Indenture as previously supplemented, and as further supplemented by a proposed

Sixteenth Supplemental Indenture. The bonds will mature November 1, 1996 and will be redeemable at the company's option upon payment of an initial redemption price of 106.25% plus accrued interest if redeemed during the 12 months beginning November 1, 1966, and thereafter at annually reducing premiums. However, redemption may not be made prior to November 1, 1976, through the use of funds borrowed at an effective net interest cost of less than 6-1/4% per annum.

With respect to the restricted redemption provision extending over a period of ten years, a partner of Dean Witter & Co. testified to the effect that: (a) generally speaking, most institutional purchasers have an opportunity to invest their funds on ten year nonrefunding terms and have become accustomed to requiring it; (b) responsible opinion suggests that refunding opportunities may be few indeed no matter what the term of the protective provisions; and (c) his firm is of the opinion that the proposed bonds could not be sold at a 6-1/4% per annum interest rate without protection against refunding for a period of ten years.

It appears that an increase in interest rate from 6-1/4% to 6-1/2% per annum, together with a reduction from ten years to seven years in the restricted redemption period where the premium for the latter would not decline until after such period expires, would be less advantageous to applicant than the terms proposed in this proceeding. Recently, the Commission authorized such suggested alternative terms in connection with the First Mortgage 6-1/2% Bonds, Series O, of San Jose Water

Works. The record shows that in order for the additional three-year nonrefunding period proposed in this proceeding to have any adverse effect at all, it would be necessary for money market conditions to change to such extent as to enable applicant to refund at an interest cost approaching 2% less, or 4-1/2% per annum, at the expiration of the restricted period. Considering current money market conditions, the fact that during the past ten years applicant has not sold any of its bonds at an interest cost below 4.6% per annum and the impossibility of predicting future interest rates, it does not appear appropriate for the company to risk renegotiations which might result in a heavier interest burden than that involved in the definitely established terms applicable to the proposed bonds now under consideration.

Upon receiving authorization from the Commission, applicant plans to sell the bonds to three institutional investors at their principal amount plus accrued interest. The gross proceeds to be derived from the sale, exclusive of accrued interest, will be used to repay outstanding short-term bank loans and to reimburse applicant's treasury.

The Commission has considered this matter and finds that: (1) the proposed bond issue is for proper purposes; (2) applicant has need for funds from external sources for the purposes set forth in the application; (3) applicant will be required to pay interest at a lower rate than it would in the absence of the proposed restricted redemption provision; (4) the proposed Sixteenth Supplemental Indenture will not be adverse to the public interest; (5) 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 (6) such purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings, we conclude that the application should be granted. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. California Water Service Company may execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture (Sixteenth Supplemental Indenture) in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit D.

2. On or after the effective date hereof and on or before June 30, 1967, California Water Service Company may issue and sell not to exceed $3,000,000 aggregate principal amount of its First Mortgage 6-1/4% Bonds, Series K, at not less than their principal amount plus accrued interest, and shall use the proceeds, other than accrued interest, for the purposes set forth in the application. The accrued interest may be used for said purposes or for general corporate purposes.

3. California Water Service Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

4. This order shall become effective when California Water Service Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $2,000.

Dated at San Francisco, California, this 22nd day of NOVEMBER, 1966.

President

Commissioners

Commissioner George G. Grover did not participate in the disposition of this proceeding.

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.

PUBLIC UTILITIES COMMISSION
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