

ORIGINAL

Decision No. 73794

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. 49997
Filed February 2, 1968
and Amendment
Filed February 13, 1968

O P I N I O N

In this application California Water Service Company seeks authorization from the Commission to issue and sell \$2,500,000 principal amount of its bonds and to execute and deliver a supplemental indenture.

Applicant is a California corporation engaged in the business of supplying and distributing water for domestic and industrial purposes in various localities in California. For the year ended December 31, 1967, the company reports total operating revenues of \$21,041,042 and net income of \$3,114,020.

The balance sheet, attached to the application as part of Exhibit A, discloses that as of December 31, 1967, applicant's investment in net utility plant, after deducting depreciation and amortization reserves, amounted to \$88,011,474. The corporation's capitalization percentages on the balance sheet date, excluding \$2,696,085 of contributions in aid of construction and adjusted to give effect to the \$2,500,000 bond issue proposed herein, are computed as follows:

Long-term debt	47%
Advances for construction	10
Preferred stock	4
Common stock equity	<u>39</u>
Total	<u>100%</u>

The application shows that outstanding short-term bank loans as of December 31, 1967, totaled \$1,100,000, which sum was used to defray the cost of the company's construction program. According to applicant's estimates, gross construction expenditures for utility plant, excluding projects to be financed by advances for construction, will amount to not less than \$5,551,004 for the year 1968. Exhibit C, attached to the application, indicates that the utility's unreimbursed net capital expenditures as of December 31, 1967 aggregated \$27,274,072.

The proposed bond issue will be designated First Mortgage 6-3/4% Bonds, Series L, and will be secured by an existing Mortgage of Chattels and Trust Indenture as previously supplemented, and as further supplemented by a proposed Seventeenth Supplemental Indenture. The bonds will mature November 1, 1997, and will be redeemable at the company's option upon payment of an initial redemption price of 106.75% plus accrued interest, if redeemed during the twelve months beginning November 1, 1967 and thereafter at annually reducing premiums. However, redemption may not be made prior to March 1, 1975, through the use of funds borrowed at an effective net interest cost of less than 6-3/4% per annum.

In urging a seven-year restricted redemption provision, applicant cites its Series K bonds which are subject to a ten-year restriction. The utility reports that it has made its own observations of the marketing of similar bonds by private placement and has received advice from Dean Witter & Co. pertaining to the advisability of a seven-year restriction. It appears that: (a) it would be extremely difficult for applicant to sell the proposed bonds in a private placement without seven-year refunding protection and (b) the inclusion of seven-year refunding protection lowers the interest rate below that which would be required for a shorter period of refunding protection.

The company plans to sell the \$2,500,000 of new bonds to three institutional investors at their principal amount plus accrued interest. The 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 Seventeenth 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, as amended, 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 (Seventeenth Supplemental Indenture) in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit D as amended by Exhibit E.

2. On or after the effective date hereof and on or before September 30, 1968, California Water Service Company may issue and sell not exceeding \$2,500,000 principal amount of its First Mortgage 6-3/4% Bonds, Series L, 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 \$1,750.

Dated at San Francisco, California,
this 5th day of MARCH, 1968.

President
Stella ... Bernick

Augusta

William ...

Frank P. ...
Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

