

ORIGINAL

Decision No. 75199

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA CITIES)
WATER COMPANY, a California)
corporation, for authority to)
issue and sell \$500,000 principal)
amount of First Mortgage Bonds,)
to issue 5,000 shares of Preferred)
Stock, Par Value \$100 per share,)
and to issue short-term promissory)
notes.)

Application No. 50711
Filed November 27, 1968
and Amendment
Filed December 23, 1968

O P I N I O N

This is an application for an order of the Commission authorizing California Cities Water Company to execute and deliver a supplemental indenture, to issue and sell \$500,000 principal amount of bonds and \$500,000 par value of preferred stock, and to issue notes and refunding notes in a total amount outstanding at any one time of not exceeding \$1,500,000.

Applicant is a California corporation operating as a public utility water company in the Counties of Los Angeles, Orange and San Bernardino. As of June 30, 1968, it reports a total of 8,321 service connections.

The utility proposes to issue and sell to Pacific Mutual Life Insurance Company \$500,000 aggregate principal amount of First Mortgage Bonds, 7-1/2%, Series B, and 5,000 shares of 7-1/2% cumulative preferred stock of the par value of \$100 per share aggregating \$500,000. The selling price is par, plus accrued interest or dividends, if any, as the case may be.

The bonds will be secured by an existing indenture as supplemented by a proposed First Supplemental Indenture, will mature December 1, 1998, and will be subject to optional redemption prior to December 1, 1969, at a premium of 7.50% of the principal amount, together with accrued interest, and thereafter at annually reducing premiums. However, prior to December 1, 1978, the bonds may not be redeemed, directly or indirectly, out of the proceeds of, or in anticipation of the creation of indebtedness of applicant for borrowed money having an interest rate or effective interest cost to the company of less than 7-1/2% per annum.

The preferred stock will be redeemable at prices per share, plus an amount of cash equal to accrued and unpaid dividends, of \$107.50 prior to December 1, 1973, \$105.67 thereafter to December 1, 1978, \$103.83 thereafter to December 1, 1983, and \$102 thereafter. Prior to December 1, 1973, such stock will be subject to a redemption restriction similar to that applicable to the proposed bond issue.

With respect to the restricted redemption provisions, applicant has submitted a letter from Smith, Barney & Co., dated December 6, 1968, a copy of which is filed in this proceeding as Exhibit F. It appears that without the ten years of nonrefundability the utility could not have obtained the terms for the proposed sales of bonds and preferred stock, which were found to be the most favorable terms possible under prevailing market conditions.

For temporary financing extending over a period of three years, applicant proposes to issue ninety-day promissory notes and notes in renewal thereof for successive additional periods of ninety days. After outstanding notes are refunded with funds obtained through additional bond issues or equity securities, the utility contemplates issuing new notes for new interim financing on the same basis. The notes will be in favor of Harris Trust and Savings Bank and the total amount outstanding at any one time will not exceed \$1,500,000. They will bear an interest rate of not exceeding 3/4% per annum above the prime rate in effect at the time of issue.

The net proceeds of the proposed bond and preferred stock issues will be used to repay, in part, a \$1,244,000 indebtedness represented by a note issued on September 27, 1968, in favor of Harris Trust and Savings Bank, which applicant issued to consolidate and renew previously outstanding notes. The utility reports that of said \$1,244,000 it used \$871,000 to finance new construction, \$13,600 for materials and supplies, and the balance for increasing working capital. Proceeds of the proposed new short-term notes and renewals will be used for repaying the balance of the \$1,244,000 note remaining after applying the net proceeds to be derived from the proposed bond and preferred stock issues, and to finance applicant's continuing construction program which is estimated to cost about \$1,000,000 in 1969.

Applicant's capitalization ratios as of August 31, 1968, and giving effect to the financing proposed herein, are reported as follows:

	<u>August 31, 1968</u>	<u>Pro Forma</u>
Long-term debt	26.9%	30.4%
Advances for construction	23.3	19.7
Preferred stock	-	7.7
Common stock equity	<u>49.8</u>	<u>42.2</u>
Total	<u>100.0%</u>	<u>100.0%</u>

After consideration the Commission finds that: (1) the proposed issues of bonds, preferred stock and notes are for proper purposes; (2) applicant will be required to pay interest and dividends at lower rates than it would in the absence of the proposed restricted redemption provisions; (3) the money, property or labor to be procured or paid for by the issue of the bonds, preferred stock and notes herein authorized is reasonably required for the purposes specified herein; (4) such purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income; and (5) the proposed documents will not be adverse to the public interest. A public hearing is not necessary.

On the basis of the foregoing findings we conclude that the application, as amended, should be granted. In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of applicant's

stock or properties nor 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 Cities Water Company may execute and deliver a First Supplemental Indenture in the same form, or in substantially the same form, as that attached to the application as Exhibit C.

2. California Cities Water Company may issue and sell not exceeding \$500,000 aggregate principal amount of its First Mortgage Bonds, 7-1/2%, Series B, due December 1, 1998, at not less than the principal amount.

3. California Cities Water Company, prior to June 30, 1969, may issue and sell not exceeding 5,000 shares of its preferred stock bearing a 7-1/2% per annum dividend rate, at not less than their par value of \$100 per share.

4. From time to time prior to December 31, 1971, California Cities Water Company may issue ninety-day promissory notes, and additional ninety-day refunding notes, in a total amount outstanding of not exceeding \$1,500,000 at any one time, at an interest rate per annum up to 3/4% above prime bank rate quoted by Harris Trust and Savings Bank of Chicago, Illinois.

5. California Cities Water Company shall use the proceeds from the bonds, preferred stock and notes herein authorized for the purposes specified in the application as amended. Proceeds derived from accrued dividends may not be

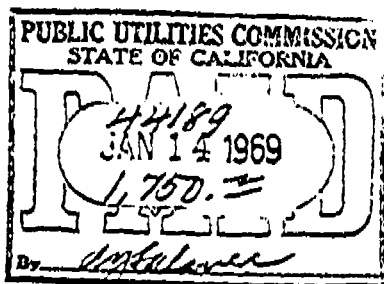
used for purposes, in whole or in part, reasonably chargeable to operating expenses or to income.

6. California Cities Water 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.

7. This order shall become effective on the day of payment by California Cities Water Company of the fee prescribed by Section 1904(b) of the Public Utilities Code, or on the day of filing with the Commission of a certified copy of an appropriate amendment to the company's Articles of Incorporation pertaining to the preferred stock, whichever day is later.

Dated at San Francisco, California, this 14th day of JANUARY, 1969.

William J. Seymour, Jr.
President
Richard P. Monissey



Commissioners

Commissioner THOMAS MORAN

Present but not participating.

Commissioner J. P. VUKASIN, JR.

-6- Present but not participating.