

**ORIGINAL**

Decision No. 75598

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 )  
 CALIFORNIA - AMERICAN WATER COMPANY )  
 )  
 for exemption from the competitive )  
 bidding rule for its proposed issue )  
 and sale of \$20,000,000 principal )  
 amount of its First Mortgage Bonds. )

Application No. 50891  
Filed February 17, 1969

Bacigalupi, Elkus, Salinger & Rosenberg, by  
Claude N. Rosenberg and Charles de Y. Elkus, Jr.,  
 for applicant;  
Sidney J. Webb, for the Commission staff.

O P I N I O N

California-American Water Company seeks an order exempting from the Commission's competitive bidding rule a proposed sale of \$20,000,000 principal amount of the company's bonds.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco, on March 26, 1969, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a California corporation owning and operating water systems in the Counties of Los Angeles, Monterey and San Diego. It is a wholly owned subsidiary of American Water Works Company, Inc., a Delaware corporation. In Exhibit No. 1 filed in this proceeding, applicant reports assets and liabilities at December 31, 1968, as follows:

Assets

Utility plant	\$48,566,889
Construction work in progress	215,428
Utility plant acquisition adjustments	11,323,916
Accumulated depreciation	(10,610,907)
Other property and investments	48,838
Total property	<u>\$49,544,164</u>
Current assets	4,209,104
Deferred debits	190,576
Total	<u>\$53,943,844</u>

Liabilities

Common stock	\$21,500,000
Paid-in capital	3,247,335
Retained earnings	1,091,125
Bonds and other long-term debt	20,000,000
Current liabilities	1,233,852
Customer advances for construction	2,730,488
Other deferred credits	11,338
Contributions in aid of construction	4,129,706
Total	<u>\$53,943,844</u>

Although the foregoing balance sheet shows an amount of \$20,000,000 for bonds and other long-term debt, actually the item consists of an open account indebtedness in favor of applicant's parent corporation incurred in connection with the acquisition of properties from California Water & Telephone Company in 1966. The proceeds of the proposed \$20,000,000 bond issue would be used to repay short-term bank loans incurred to replace said open account indebtedness.

Applicant believes that it will be in the best interests of itself and its consumers to sell the proposed bonds by negotiated sale rather than by competitive bidding. The company's request for exemption from competitive bidding is based upon the following:

1. Advice by applicant's investment bankers that probably no syndicate would submit a bid.
2. Advice by applicant's investment bankers that if any bid were submitted, such would be on less favorable terms than would result from negotiation.
3. Lack of knowledge of applicant in the financial markets due to its relative newness.
4. Lack of rating for the bonds proposed to be issued.
5. Pending condemnation litigation concerning a substantial amount of applicant's property.
6. Difficulty of obtaining consents of bondholders for revisions of indentures when bonds are publicly and widely held.

Applicant presented supporting evidence through four witnesses consisting of its president, the treasurer of itself and of its parent corporation, and two investment consultants.

The record in this proceeding shows that prevailing adverse bond market conditions make it extremely difficult to attract investors for bonds of a company like applicant, which is faced with problems such as those arising from a low coverage of probable interest requirements, and condemnation proceedings affecting a very substantial amount of its properties and earnings. Therefore, applicant should be afforded an opportunity to ascertain the reaction of potential purchasers of the bonds through private negotiations.

After consideration the Commission finds that: (1) the peculiar circumstances surrounding the proposed bond issue in the light of presently prevailing adverse bond market conditions require an intensive sales program which cannot be conducted adequately with competitive bidding; (2) although public notice had been given of

the hearing on this matter, the record is devoid of any expression of desire for a competitive bidding offering of the proposed bond issue; and (3) the sale of the proposed bonds at competitive bidding should not be required. On the basis of these findings we conclude that the application should be granted.

The exemption herein granted is not to be construed as an indication that the Commission will grant an application seeking authority to issue and sell said bonds. Among other things, such application must contain (a) evidence that the terms and conditions of the proposed offering are reasonable in the light of market conditions prevailing at the time of filing, and (b) an exhibit consisting of a list of the proposed purchasers, to which are attached verified statements to the effect that each received and read a copy of this decision prior to completing negotiations.

Applicant and the prospective bond purchasers are hereby placed on notice that, in accordance with Section 228 of the Public Utilities Code, the State of California is not obligated to pay or guarantee, in any manner whatsoever, any bond which may be issued pursuant to authorization of this Commission.

ORDER

IT IS ORDERED that the issue and sale by California-American Water Company of not exceeding \$20,000,000 principal amount of its First Mortgage Bonds are hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended.

The effective date of this order is the date hereof, and the exemption herein granted will expire on December 31, 1969.

Dated at San Francisco, California,  
this 29 day of APRIL, 1969.

William Sproull  
President

August

Robert P. Monahan

W. H. Brown

[Signature]  
Commissioners