

ORIGINAL

Decision No. 77219

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. 51859
Filed April 30, 1970

In the Matter of the Application of)
)
 CALIFORNIA WATER SERVICE COMPANY,)
 a corporation,)
)
 for an order authorizing it to)
 purchase all the outstanding shares)
 of Common (or Class B) Stock and all)
 the outstanding shares of 3% Junior)
 Preferred Stock of Palos Verdes Water)
 Company, a public utility water)
 corporation.)
)

Application No. 51860
Filed April 30, 1970

O P I N I O N

California Water Service Company seeks authority to execute and deliver a supplemental indenture, to issue and sell \$3,000,000 principal amount of its bonds, and to purchase and acquire all the outstanding shares of common stock and junior preferred stock of Palos Verdes Water Company.

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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 1969, the company reports total operating revenues and net income amounting to \$25,766,824 and \$4,104,919, respectively.

Palos Verdes Water Company is a California corporation engaged as a public utility distributing water to approximately 17,000 customers located in a portion of Los Angeles County contiguous to applicant's Hermosa-Redondo service area. Its reported assets and liabilities at December 31, 1969, are summarized as follows:

Assets

Utility plant less reserve for depreciation	\$12,491,334
Other assets	<u>678,293</u>
Total	<u>\$13,169,627</u>

Liabilities

Common stock	\$ 1,036,640
Junior preferred stock	94,400
Other preferred stock	263,540
Capital stock expense	(9,902)
Capital surplus	79,009
Earned surplus	1,576,998
Contributions in aid of construction	469,907
Long-term debt	5,069,000
Advances for construction	3,404,718
Other liabilities	<u>1,185,317</u>
Total	<u>\$13,169,627</u>

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The outstanding shares of capital stock of Palos Verdes Water Company consist of the following:

<u>Description</u>	<u>Number of Shares</u>	<u>Par Value</u>	<u>Aggregate Par Value</u>
Class A Preferred, 5-1/2%	2,768	\$ 20	\$ 55,360
Parity Preferred, 5-1/2%	1,800	100	180,000
Special Preferred, 5-1/2%	1,409	20	28,180
Junior Preferred, 3%	944	100	94,400
Class B Common	51,832	20	1,036,640

Great Lakes Carbon Corporation, a Delaware corporation, holds all the 51,832 and 944 outstanding shares of common and junior preferred stock, respectively, of Palos Verdes Water Company. According to an agreement dated April 13, 1970, applicant proposes to purchase from Great Lakes Carbon Corporation all of said shares of common and junior preferred stock for \$3,000,000 cash.

Applicant proposes to sell \$3,000,000 of its First Mortgage 9-1/4% Bonds, Series N, at 100% of their principal amount plus accrued interest. The company intends to use the proceeds (exclusive of accrued interest to be used for general corporate purposes) to reimburse its treasury for capital expenditures, after which applicant would consummate the purchase of said stock of Palos Verdes Water Company by a cash payment of \$3,000,000.

The proposed bond issue will be secured by an existing Mortgage of Chattels and Trust Indenture as previously supplemented,

and as further supplemented by a proposed Nineteenth Supplemental Indenture. The bonds will be dated May 1, 1970, will mature November 1, 2000, and will be redeemable at the company's option at an initial redemption price of 109.25% plus accrued interest, and thereafter at annually reducing premiums. However, the bonds will not be redeemable prior to May 1, 1980, through the use of borrowed funds having an effective net interest cost to the utility of less than 9-1/4% per annum.

As justification for the restricted redemption provision, applicant cites its recent issue of First Mortgage 9-1/2% Bonds, Series M, which are subject to ten-year refunding protection. Based upon the company's observations of the marketing by private placement of bonds similar to those of the utility, as well as the experience and advice of Dean Witter & Co. Incorporated, applicant states upon information and belief, the following:

"(a) that it would have been extremely difficult to sell the Bonds in a private placement without ten-year refunding protection, and

"(b) that the inclusion of ten-year refunding protection tended to lower the interest rate from what the Bonds would have had to bear in the present market if sold with a shorter period of refunding protection."

The utility intends to sell the new bonds to Teachers Retirement Board of Ohio, State of California Public Employees'

Retirement System and State of California State Teachers'

Retirement System in principal amounts of \$1,000,000 to each.

Applicant's reported net utility plant, after deducting depreciation and amortization reserves, amounted to \$97,758,717 at March 31, 1970. The corporation's capitalization percentages on said date, adjusted to give effect to a recent \$2,500,000 bond issue and to the proposed \$3,000,000 bond issue, are reported as follows:

Long-term debt	53%
Preferred stock	4
Common stock equity	<u>43</u>
Total	<u>100%</u>

According to Exhibit C, attached to Application No. 51859, the pro forma balance of applicant's unreimbursed expenditures, after deducting \$2,500,000 proceeds derived from its Series M bonds, aggregated \$33,361,108 as of December 31, 1969.

After consideration the Commission finds that:

1. California Water Service Company and Palos Verdes Water Company are public utility water corporations subject to the jurisdiction of this Commission.
2. The \$3,000,000 purchase price pertaining to said common and junior preferred stock is reasonable.

3. The purchase and acquisition of all the outstanding common and junior preferred stock of Palos Verdes Water Company by California Water Service Company would not be adverse to the public interest.
4. The proposed bond issue is for proper purposes.
5. Applicant has need for funds from external sources for the purposes set forth in these proceedings.
6. Applicant will be required to pay interest at a lower rate than it would in the absence of the proposed restricted redemption provision.
7. The proposed Nineteenth Supplemental Indenture would not be adverse to the public interest.
8. 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, which 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 applications should be granted. A public hearing is not necessary. The action taken herein is for the purpose of these proceedings only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates, nor as a finding of the value of any of the outstanding shares of capital stock of Palos Verdes Water Company.

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 (Nineteenth Supplemental Indenture) in the same form, or in substantially the same form, as that attached to Application No. 51859 as Exhibit E.
2. California Water Service Company may issue and sell, at private sale, not exceeding \$3,000,000 aggregate principal amount of its First Mortgage 9-1/4% Bonds, Series N, at a price of not less than their principal amount plus accrued interest, and shall use the proceeds for the purposes set forth in these proceedings.
3. California Water Service Company may purchase and acquire all the outstanding shares of common and junior preferred stock of Palos Verdes Water Company in accordance with the terms and provisions of a Stock Purchase Agreement dated April 13, 1970, a copy of which is attached to Application No. 51860 as Exhibit A.
4. 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.

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5. 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 \$4,000. Any authority herein granted and not exercised will expire on September 30, 1970.

Dated at San Francisco, California,
this 19th day of MAY, 1970.

William Sproull Jr.
President

Augusta

J. P. ...

Thomas ...

Yvonne L. Stungen
Commissioners

