

Decision No. 78400

ORIGINAL

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. 52431  
Filed February 4, 1971

O P I N I O N

California Water Service Company requests an order of the Commission authorizing it to issue and sell \$3,000,000 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 1970, the company reports total operating revenues and net income amounting to \$27,200,251 and \$3,874,877, respectively.

The company's reported net utility plant, after deducting depreciation and amortization reserves, amounted to \$100,273,266 at December 31, 1970. The utility's capital ratios as of such date, after giving effect to the proposed \$3,000,000 bond issue, as set forth in the application, are as follows:

First mortgage bonds	53.4%
Preferred stock	4.1
Common stock (including all surplus)	<u>42.5</u>
Total	<u>100.0%</u>

The application shows that on December 31, 1970, the company had outstanding \$2,000,000 of short-term loans incurred for construction purposes, and that applicant's unfinanced capital expenditures totaled \$34,873,722 as of such date.

The proposed bond issue will be designated First Mortgage 9-1/4% Bonds, Series O, and will be secured by an existing Mortgage of Chattels and Trust Indenture as heretofore supplemented and as further supplemented by a proposed Twentieth Supplemental Indenture. The bonds will be dated November 1, 1970, will mature November 1, 2000, and will be redeemable at the company's option at an initial redemption price of 109.25% of the principal amount thereof plus accrued interest, and thereafter at annually reducing premiums. However, the bonds will be subject to a ten-year restricted redemption provision.

The company has tentative commitments to sell the new bonds to two institutional investors at a price equal to 100% of their principal amount plus accrued interest, the latter to be deducted from the first payment of interest. The utility proposes to apply the gross proceeds (exclusive of accrued interest) to defraying the expenses of the issuance and sale of said bonds, to repaying short-term loans for construction, and to reimbursing its treasury for capital expenditures. Applicant proposes to pay Dean Witter & Co. Incorporated a commission estimated not to exceed \$15,000 for services in negotiating the sale of the bonds.

After consideration the Commission finds that:

1. The proposed bond issue is for proper purposes.
2. Applicant has need for external funds for the purposes set forth in the application.
3. Applicant would be required to pay interest at a lower rate than it would in the absence of the proposed restricted redemption provision.
4. The proposed interest rate is reasonable for a private placement in the light of market conditions prevailing at the time of negotiation.
5. The proposed Twentieth Supplemental Indenture would not be adverse to the public interest.
6. 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 application should be granted. A public hearing is not necessary. 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 (Twentieth 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 April 30, 1971, 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 O, at a price of not less than the principal amount thereof plus accrued interest to the date of issuance (to be deducted from the first payment of interest).

3. California Water Service Company shall use the proceeds of the issuance and sale of said bonds for the purposes set forth in the application.

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.

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.

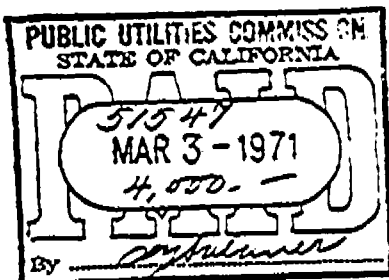
Dated at San Francisco, California, this 2nd day of MARCH, 1971.

*I will file a concurring opinion.*

*[Signature]*  
Chairman

*[Signature]*  
Commissioner

*[Signature]*  
Commissioners



Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

COMMISSIONER HOLMES, Concurring:

While I concur in the foregoing decision, I feel that the Commission must give due consideration to bond interest rates, both on a bid and on a negotiated basis.

The bond issue authorized herein and also by Decision No. 78358 (Appl. No. 52407, San Jose Water Works) are for \$3 Million, the maximum amount issuable without Commission exemption from its competitive bidding rule (D-38614, C-4761, as amended in 1954 by D-49941).

I would agree that due to the abnormally high bond market and the tight money supply of the last two years any commitment, almost without regard to terms and rates, was desirable. However, the Commission's attitude toward bond rates should be flexible and should adjust with the money market which dictates the cost of financing.

One of the obligations imposed upon the Commission is that it does not saddle future consumers with unduly high interest rates. Cost and availability of money should be carefully considered in deciding whether to authorize exemptions from the competitive bidding rule. I feel that my views should be publicly expressed for the benefit of future issuers, future bond purchasers, and the public in general.

  
Commissioner

Dated at San Francisco, California,  
March 2, 1971