

Decision

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California Water)
 Service Company, a corporation,)
 to issue and sell \$18,000,000)
 principal amount of its First)
 Mortgage Bonds, Series BB, and to)
 execute and deliver a Supplemental)
 Mortgage of Chattels and Trust)
 Indenture.)
)
 (U-60-W))

Application 88-04-068
 (Filed April 29, 1988;
 amended May 11, 1988)

O P I N I O N

Summary of Decision

This decision grants California Water Service Company (Cal Water) the authority requested in the application, as amended.

Cal Water requests authority, under Public Utilities Code (Code) Sections 818 through 830 and 851, for the following:

1. To issue, sell and deliver at a private sale, not to exceed \$18,000,000 aggregate principal amount of First Mortgage Bonds, Series BB, (New Bonds); and
2. To execute and deliver a proposed Thirty-Third Supplemental Mortgage of Chattels and Trust Indenture (Supplemental Indenture).

Notices of the filing of the application, as amended, appeared on the Commission's Daily Calendars of April 29, 1988 and May 16, 1988. No protests have been received.

Cal Water, a California corporation, operates as a public utility under the jurisdiction of this Commission. Cal Water engages in the sale and distribution of water service in many localities in California from Chico in the north to the Palos Verdes Peninsula in the south.

For the 12 months ended March 31, 1988, Cal Water reported that it generated total operating revenues of \$115,146,115 and net income of \$15,697,529, shown as a part of the supplemental information attached to Cal Water's letter of May 17, 1988, which was received by the Commission Advisory and Compliance Division (CACD).

Also shown as a part of the supplemental information is Cal Water's Balance Sheet as of March 31, 1988, summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$274,364,112
Investment in Non-Utility Property	338,527
Current Assets	15,566,865
Deferred Charges	3,813,840
Total	<u>\$294,083,344</u>
 <u>Liabilities and Equity</u>	
Common Equity	\$ 98,783,885
Preferred Stock	5,782,575
Long-Term Debt	73,935,750
Current Liabilities	21,305,829
Advances and Contributions	76,599,804
Deferred Credits and Reserves	17,675,501
Total	<u>\$294,083,344</u>

Sale of New Bonds

Cal Water has not entered into a contract for the sale of the New Bonds, but the utility proposes to issue and sell New Bonds to institutional investors by a negotiated private placement and not for resale to the public. Cal Water stated that it will furnish to the CACD a copy of the agreements

for the sale of the New Bonds, as soon as these documents are available. Cal Water also stated that it will not execute any underwriting agreement relating to the New Bonds, but proposes to pay a commission (estimated not to exceed \$90,000) to Smith Barney, Harris Upham & Company, Inc., for its services in negotiating the sale of the New Bonds. The New Bonds will be secured by an existing indenture as previously supplemented, amended and modified and as further supplemented and amended by the proposed Supplemental Indenture. A preliminary proof of the form of the proposed Supplemental Indenture was late-filed as Exhibit D attached to the amended application. After the form of the Supplemental Indenture has been fully agreed upon with the purchasers of the New Bonds, Cal Water will furnish the CACD a copy of this document. The terms and form of the New Bonds will be as set forth in the Supplemental Indenture.

Competitive Bidding Rule

Under the provisions of Commission Resolution F-616 dated October 1, 1986, Cal Water's proposed issue and sale of the New Bonds is exempt from the Commission's Competitive Bidding Rule because the aggregate principal amount is less than \$20,000,000.

Use of Proceeds

Cal Water proposes to use the net proceeds from sale of the New Bonds as follows:

1. To refund at maturity, on November 1, 1988, all \$3,955,050 principal amount outstanding of Cal Water's 6.6% First Mortgage Bonds, Series R;
2. To reimburse Cal Water's treasury for the \$2,434,000 used to redeem, on May 16, 1988, 91,200 shares of 9.25% Preferred Stock, Series K; and
3. To reimburse Cal Water's treasury for a portion of moneys actually expended prior to December 31, 1987 for capital improvements.

By letter dated May 26, 1988 to the CACD, Cal Water reported that it has certain unreimbursed capital expenditures as of December 31, 1987 totaling \$135,834,411, as shown in a revised copy of Exhibit C to the amended application.

Construction Budgets

For the years 1988 and 1989, Cal Water's estimated construction budgets exclude projects covered by advances for construction and contributions in aid of construction. Cal Water's estimated construction budget for the year 1988, attached as Exhibit B to the amended application, and for the year 1989, filed by the utility by letter dated May 18, 1988 with the CACD, are summarized in the following tabulation.

Construction Budgets

<u>Component</u>	<u>1988</u>	<u>1989</u>
Land and Land Rights	\$ 162,000	\$ 170,000
Structures and Improvements	831,000	872,000
Wells	410,000	430,000
Storage Tanks	180,000	189,000
Pumping Equipment	1,342,000	1,564,000
Water Treatment Equipment	150,000	0
Transmission and Distribution	6,370,000	4,898,000
Services	2,039,000	2,138,000
Meters	1,814,000	1,902,000
Hydrants	298,000	313,000
General Equipment	1,739,000	1,824,000
Total	<u>\$15,335,000</u>	<u>\$14,300,000</u>

The CACD Water Utilities Branch has reviewed Cal Water's construction budgets and it has concluded that the reimbursement of the utility's treasury for prior unfinanced capital improvements from the proposed sale of the New Bonds will permit Cal Water to fund, in part, the planned construction. However, Cal Water is placed on notice by this decision that the Commission does not find that its construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

In a letter dated May 26, 1988 to the CACD, Cal Water's revised estimated cash requirements forecast for the years 1988 and 1989 indicated that internally generated funds will provide about 28% or \$8,000,000 of cash expenditures for 1988 and about 56% or \$9,600,000 for 1989. The CACD Accounting & Finance Branch has concluded that the reimbursement of Cal Water's treasury for

prior unfinanced capital improvements from the proceeds of the proposed sale of the New Bonds is necessary to help meet forecasted cash requirements. Cal Water will need cash from outside sources of about \$20,700,000 in 1988 and about \$7,600,000 in 1989.

Capital Ratios

Cal Water's capital ratios as of March 31, 1988 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>March 31, 1988</u>	<u>Pro Forma</u>
Long-Term Debt	40.5%	46.2%
Short-Term Debt	2.2	0
Total Debt	<u>42.7</u>	<u>46.2</u>
Preferred Stock	3.2	1.8
Common Stock Equity	54.1	52.0
Total	<u>100.0%</u>	<u>100.0%</u>

1. The proposed issuance and sale of First Mortgage Bonds, Series BB, in the aggregate principal amount of \$18,000,000;
2. The refund at maturity, on November 1, 1988, of 6.6% First Mortgage Bonds, Series R, in the aggregate principal amount of \$3,955,050 (authorized by Decision (D.)80826 dated December 12, 1972 in Application (A.)53678);

3. The redemption, on May 16, 1988, of 91,200 shares of 9.25% Preferred Stock, Series K, in the aggregate principal amount of \$2,280,000 (authorized by D.86159 dated July 27, 1976 in A.56602);
4. The conversion of 1,103 shares of Preferred Stock, \$25 Par Value, Series D through K, into Common Stock, no par value, in the aggregate principal amount of \$27,575; and
5. The decrease in short-term borrowings of \$4,000,000.

The CACD Accounting & Finance Branch has reviewed and analyzed the financial data included in Cal Water's amended application and the utility's other financial data covered by subsequent letters and attached supplemental data sheets forwarded to the CACD. The CACD has no objection to the proposed issue and sale of the New Bonds and recommends that Cal Water be granted the authority to issue and deliver its proposed Supplemental Indenture.

The following order should be effective on the date of signature and payment of the fee due under Code Section 1904(b), after taking credit for the retirement and redemption of security issues detailed in the capital ratios caption and the following order.

Findings of Fact

1. Cal Water, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. The proposed issuance of the New Bonds would be for proper purposes and not adverse to the public interest.

3. The terms and conditions of the proposed Supplemental Indenture are reasonable and not adverse to the public interest.

4. Cal Water has need for external funds for the purposes set forth in the amended application.

5. The proposed issue of New Bonds is not required to be issued through competitive bidding.

6. The Commission does not, by this decision, determine that Cal Water's construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

7. There is no known opposition to the amended application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The amended application should be granted to the extent set forth in the following order.

The proposed New Bonds are for lawful purposes and the money, property or labor to be obtained, or paid for, by them is required for these purposes. Proceeds from the New Bonds may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by Code Section 1904(b), to enable Cal Water to expeditiously proceed with its financing.

O R D E R

IT IS ORDERED that:

1. California Water Service Company (Cal Water), on or after the effective date of this order and on or before December 31, 1988, may issue, sell and deliver at a private sale its New Bonds in an aggregate principal amount not to exceed \$18,000,000 substantially in accordance with the terms and conditions to be negotiated as described in the amended application, and any letters, documents, exhibits or information submitted to the CACD in connection with these proceedings.
2. Cal Water may execute and deliver a Supplemental Indenture in or substantially in the form late-filed as Exhibit D to the amended application.
3. Cal Water shall apply the net proceeds from the sale of the New Bonds for the purposes set forth in the amended application.
4. Cal Water's proposed issuance and sale of the New Bonds is exempt from the Commission's Competitive Rule under the provisions of Commission Resolution F-616 dated October 1, 1986, because the aggregate principal amount of these debt securities is less than \$20,000,000.

5. Promptly, after executing the contracts of sale of its New Bonds, Cal Water shall file a copy of the contracts and a written report with the CACD, showing the interest rate and the cost of money to the company based on the price and interest rate.

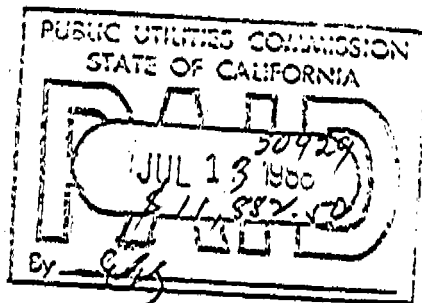
6. Cal Water shall file the reports required by General Order Series 24.

7. Cal Water shall submit an original and four copies of the reports required by ordering paragraph 4 to the CACD with a transmittal letter stating the application and decision numbers. Parties need not be served with copies of the reports unless they request such service in writing. When service is made on parties who request copies of the report, Cal Water shall attach to its report a certificate showing service by mail upon all those requesting copies. The Director of the CACD shall send the original and one copy of the report to the Docket Office for filing.

8. The amended application is granted as set forth above.

The authority granted by this order to issue the New Bonds will become effective when Cal Water pays \$11,882.50, the fee set by Code Section 1904(b), after taking credit for the redemption of \$2,280,000 of 9.25% Preferred Stock, Series K and the retirement of \$3,955,050 of 6.6% First Mortgage Bonds, Series R. In all other respects, this order is effective today.

Dated JUL 8 1988, at San Francisco, California.



STANLEY W. HULETT
President
DONALD VIAL
C. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Frederick R. Duda being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Victor Weisser
Victor Weisser, Executive Director