

CACD/RHG

Decision 92 05 023 MAY 08 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA WATER SERVICE )  
COMPANY U-60-W, a corporation, to )  
issue and sell \$20,000,000 principal )  
amount of its First Mortgage Bonds, )  
Series DD, and to execute and deliver )  
a Supplemental Mortgage of Chattels )  
and Trust Indenture. )

**ORIGINAL**

Application 92-01-023  
(Filed January 14, 1992)

O P I N I O N

Summary of Decision

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

Cal Water Service requests authority, pursuant to Sections 818 and 851 of the California Public Utilities Code (PU Code), for the following:

1. To issue and sell at private sale not exceeding \$20,000,000 aggregate principal amount of its First Mortgage Bonds, Series DD;
2. To execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture.

Notice of the filing of the application appeared on the Commission's Daily Calendar of January 24, 1992. No protests have been received.

Cal Water Service, a California corporation, operates as a water utility under the jurisdiction of this Commission. Cal Water Service engages in the retail water business in many localities in the state of California from Chico in the north to the Palos Verdes Peninsula in the South.

For the twelve months ended October 31, 1991, Cal Water Service reported it generated total operating revenues of \$120,216,147 and net income of \$10,260,498 shown as part of Exhibit A to the application.

Also shown as part of Exhibit A is Cal Water Service's Balance Sheet as of October 31, 1991 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$344,145,962
Invest. in Non-Util. Prop.	222,360
Current Assets	21,556,009
Deferred Charges	<u>21,556,009</u>
Total	\$387,870,079
 <u>Liabilities and Equity</u>	 <u>Amount</u>
Common Share. Equity	\$112,305,725
Preferred Stock	3,475,000
First Mort. Bonds	104,923,078
Current Liabilities	32,066,926
Unamortized Inv. Tax Cr.	4,429,413
Deferred Inc. Taxes	19,356,349
Advances for Constr.	83,161,244
Misc. Reserves	-0-
Contr. in Aid of Constr.	<u>28,152,344</u>
Total	\$387,870,079

#### Debt Securities

Cal Water Service proposes to issue and sell \$20,000,000 principal amount of its First Mortgage Bonds (Bonds), Series DD, to be issued under and secured by that certain Indenture from Cal Water Service to American Trust Company and Los Angeles-First National Trust and Savings Bank, as Trustees, dated April 1, 1928, as supplemented, amended and modified by thirty-four indentures supplemental to that first indenture, and as to be further supplemented by a proposed Thirty-Fifth Supplemental Indenture.

Cal Water Service has not yet entered into any contract for the disposition of the Bonds, but Cal Water Service proposes to sell the Bonds to institutional investors for investment purposes and not for resale to the public. Cal Water Service will furnish the Commission a copy of the agreements for the sale of the Bonds as soon as such documents are available. Cal Water Service will not execute any underwriting agreement relating to the Bonds, but

proposes to pay a reasonable fee (estimated to be \$100,000) to an investment banking firm for its services in negotiating the sale.

As soon as available, Cal Water Service will file as Exhibit E to the application a preliminary proof of the Thirty-Fifth Supplemental Indenture. When the form of the Thirty-Fifth Supplemental Indenture has been fully agreed upon with the bond purchasers, Cal Water Service will furnish the Commission with a copy. The terms and form of the Bonds will be set forth in the Thirty-Fifth Supplemental Indenture.

In Decision (D.) 90-12-097, which modified D.90-09-069, Cal Water Service was ordered to execute and deliver the Supplemental Mortgage of Chattels and Trust Indenture (Thirty-Fourth Supplemental Indenture) in or substantially in the same form as set forth in its late-filed Exhibit E.

The principal amount of the Bonds which Cal Water Service proposes to sell does not exceed \$20,000,000. Therefore the issuance and sale of the Bonds is exempt from the requirements of the Commission's competitive bidding rule as set forth in D.38614, as amended by D.49941, D.75556, D.81908, and by Resolution F-616.

#### Capitalization Ratios

Cal Water Service's capitalization ratios at October 31, 1991, recorded, and at October 31, 1991, pro forma after giving effect to the proposed issuance of its Bonds in the aggregate principal amount of \$20,000,000 (and taking into consideration the annual sinking fund redemption of November, 1991), are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$104,923,078	47.5%	\$123,502,078	51.6%
Pref. Stock	3,475,000	1.6%	3,475,000	1.5%
Common Stock	<u>112,305,725</u>	<u>50.9%</u>	<u>112,305,725</u>	<u>46.9%</u>
Totals	\$220,703,803	100.0%	\$239,282,803	100.0%

Cal Water Service is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Construction Budget

A summary of Cal Water Service's construction budget for 1992, as appearing in its revised Exhibit B, is as follows:

<u>Item</u>	<u>Amount</u>
Land and Land Rights	\$ 287,200
Structures and Improvements	4,987,900
Wells	312,200
Storage	1,243,100
Pumping Equipment	1,705,800
Water Treatment Equipment	1,030,700
Transmission and Distribution Mains	6,917,200
Services	2,533,100
Meters	2,667,900
Hydrants	377,700
General Equipment	<u>2,770,300</u>
Total	\$24,833,100

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Cal Water Service's construction program. CACD concludes that the proposed financing is necessary for the construction program; however, Cal Water Service is placed on notice, by this decision, that the Commission does not find that its construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Cash Requirements Forecast

Cal Water Service's cash requirements forecast for 1992 and 1993 are summarized as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>
Funds Needed for Construction Expenditures	\$24,833,100	\$23,000,000
Long-Term Debt (Sinking Fund Requirements)	1,065,000	1,150,000
Maturity of Series I		2,565,000
Short-Term Debt as of Beginning of Year	14,000,000	9,400,000
Total	\$39,898,100	\$36,115,000
Less:		
Estimated Internal Cash Generation	10,746,000	10,615,000
Additional Funds Required from External Sources	\$29,152,100	\$25,500,000

CACD has analyzed Cal Water Service's cash requirements forecast for 1992 and 1993. CACD has concluded that internally generated funds will provide \$10,746,000 or 26.9% of Cal Water Service's cash requirements for 1992 and \$10,615,000 or 29.4% in 1993. CACD concludes that the proposed issuance of Cal Water Service's Bonds is necessary to help meet forecasted cash requirements including capital expenditures. CACD has reviewed the application and has concluded that the proposed issuance of the Bonds is reasonable and that the authority should be granted.

Use of Proceeds

Cal Water Service estimates that its gross expenditures for Utility Plant for the period from January 1, 1992 to December 31, 1992, excluding expenditures on projects which may be covered by advances for construction and contributions in aid of construction, will amount to not less than \$24,833,100, as summarized in the revised Exhibit B. Based on Cal Water Service's data, approximately 43% of construction expenditures for 1992 may be financed with internally generated funds.

Cal Water Service states that it plans to use the net proceeds derived from the sale of the Bonds to repay its short-term indebtedness (totaling \$14,000,000 as of January 1, 1992) and to fund a portion of its capital improvements for the year 1992.

Findings of Fact

1. Cal Water Service, a California corporation, operates as a water utility subject to the jurisdiction of this Commission.

2. Cal Water Service needs external funds for the purposes set forth in the application.

3. The issuance of the proposed Bonds and the execution of a Supplemental Mortgage of Chattels and Trust Indenture would not be adverse to the public interest.

4. The issuance of the proposed Bonds is for proper purposes.

5. The money, property, or labor to be procured or paid for by the proposed Bonds is reasonably required for the purposes specified in the application.

6. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

3. The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

4. The following order should be effective on the date of signature and payment of a fee of \$16,000 set forth by §1904(b) of the PU Code.

ORDER

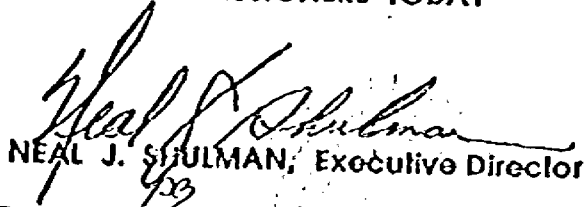
IT IS ORDERED that:

1. On or before December 31, 1992 California Water Service Company (Cal Water Service) may issue and sell at private sale not exceeding \$20,000,000 aggregate principal amount of its First Mortgage Bonds, Series DD, in substantially the same form as set forth in the application.
2. Cal Water Service may execute and deliver the Supplemental Mortgage of Chattels and Trust Indenture (Thirty-Fifth Supplemental Indenture) in substantially the same form as set forth in its late-filed Exhibit E, pursuant to Decision (D.) 90-09-069, as modified by D.90-12-097.
3. Cal Water Service shall file with the Commission Advisory and Compliance Division copies of the agreements for the sale of the Bonds and the Thirty-Fifth Supplemental Indenture within 15 days of the execution of the documents.
4. On or before the 25th of each month Cal Water Service shall file the reports required by General Order Series 24.
5. The application is granted as set forth above.
6. The authority granted by this order to issue the Bonds shall become effective when Cal Water Service pays \$16,000, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated MAY 8 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

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

  
NEAL J. SHULMAN, Executive Director

