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Decision No. 90881 OCT 10 1979**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of)

CALIFORNIA WATER SERVICE COMPANY,)
a corporation)to issue and sell \$5,000,000 principal)
amount of its First Mortgage Bonds,)
Series X, and to execute and deliver)
a Supplemental Mortgage of Chattels)
and Trust Indentures.)Application No. 59111
(Filed August 29, 1979)O P I N I O N

California Water Service Company (Cal Water) seeks authorization to issue and sell by private sale not exceeding \$5,000,000 principal amount of its First Mortgage 10% Bonds, Series X, and to execute and deliver a Twenty-Ninth Supplemental Indenture.

This application is made pursuant to Sections 818 and 851 of the Public Utilities Code. Notice of the filing of the application was published on the Commission's Daily Calendar of August 31, 1979.

Cal Water is a California corporation engaged in the business of providing water service to customers in many localities throughout the State. For the 12 months ended June 30, 1979, the utility generated operating revenues of \$51,410,611 and net income of \$6,299,656.

The company's balance sheet as of June 30, 1979 is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net utility plant	\$169,927,857
Other physical property	494,982
Sinking funds	7,525
Current assets	8,352,854
Deferred charges	1,342,850
Total	<u>\$180,126,068</u>

<u>Liabilities and Net Worth</u>	
Common capital	\$ 56,572,586
Preferred stock	6,640,200
First mortgage bonds	73,662,820
Notes payable	2,700,000
Current liabilities	6,086,749
Advances for construction	26,010,204
Contributions in aid of construction	8,131,964
Miscellaneous reserves	321,545
Total	<u>\$180,126,068</u>

Unreimbursed capital expenditures reported by Cal Water as of June 30, 1979 totalled \$78,622,333. Excluding projects to be financed by advances for construction and contributions in aid of construction, the utility estimates that gross construction outlays for 1979 will amount to \$7,362,000, of which 50% will be financed with internally generated funds.

Cal Water proposes to issue and sell \$5,000,000 principal amount of its First Mortgage 10% bonds, Series X to mature November 1, 2005. The bonds would be secured by an existing Indenture as previously supplemented, and by a proposed Twenty-Ninth Supplemental Mortgage of Chattels and Trust Indenture which would create the new series and further secure payments of principal on all bonds outstanding. The bonds would be subject to a ten-year restricted redemption provision and annual sinking fund payments of \$25,000

would commence October 31, 1980. Beginning with the year ending October 31, 1984 such sinking fund payments would increase to \$165,000 annually.

According to the Commission's Competitive Bidding Rule, as most recently promulgated by Decision No. 81908, dated September 25, 1973, in Case No. 4761, competitive bidding is not required for debt security issues of \$5,000,000 or less.

Cal Water has tentative commitments from four institutional investors for the purchase of the Series X Bonds at 100% of their principal amount, namely \$5,000,000, as follows:

<u>Name</u>	<u>Amount</u>
American United Life Insurance Company	\$1,500,000
Lutheran Mutual Life Insurance Company	1,500,000
Equitable Life Insurance Company of Iowa	1,000,000
Woodmen Accident and Life Insurance Company	<u>1,000,000</u>
Total	<u>\$5,000,000</u>

Cal Water will not execute any underwriting agreement relating to the Series X Bonds, but proposes to pay a commission (estimated not to exceed \$25,000) to Dean Witter Reynolds, Inc. for services rendered in negotiating the sales. Net proceeds derived from the sales would be used to reimburse the company's treasury for a portion of the moneys actually expended prior to June 30, 1979, for capital improvements.

Cal Water's capitalization ratios at June 30, 1979, recorded, and at June 30, 1979, pro forma after giving effect to (a) the proposed issuance of \$5,000,000 principal amount of Series X First Mortgage Bonds, (b) the retirement of \$1,323,000 of Series F First Mortgage Bonds and (c) \$399,030 in sinking fund payments, are as follows:

	<u>June 30, 1979</u>	
	<u>Recorded</u>	<u>Pro Forma</u>
First mortgage bonds	53.9%	55.0%
Preferred stock	4.9	4.7
Common stock	<u>41.2</u>	<u>40.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>

In support of the application, Cal Water states that the proposed interest rate is reasonable for a private placement in light of market conditions prevailing at the time of negotiation of the sale; moreover, sale of the Series X Bonds would have been extremely difficult without ten-year refunding protection, which tendered to lower the interest rate below that required for a shorter period of refunding protection.

The Revenue Requirements Division of the Commission's staff has reviewed the application and concludes that the proposed financing is required to reimburse the company's treasury for capital expenditures. The Division, however, reserves the right to reconsider the reasonableness of construction expenditures in future rate proceedings.

Findings of Fact

1. The proposed issuance of First Mortgage 10% Bonds, Series X would be for proper purposes.
2. The proposed Twenty-Ninth Supplemental Indenture would not be adverse to the public interest.
3. Cal Water has need for external funds for purposes set forth in the application.
4. The sinking fund provisions are reasonable.
5. The proposed restricted redemption provision is reasonable.
6. There is no known opposition and there is no reason to delay granting the authority requested.
7. The money, property, or labor to be procured or paid for by the issue of bonds herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

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.

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. On or after the effective date hereof and on or before June 30, 1980, California Water Service Company may issue and sell its First Mortgage 10% Bonds, Series X, due November 1, 2005 in an aggregate principal amount not exceeding \$5,000,000.
2. California Water Service Company may execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture (Twenty-Ninth Supplemental Indenture) in substantially the same form as Exhibit D, attached to the application.
3. California Water Service Company shall apply the proceeds from the sale of the Series X Bonds to the purposes specified in the application.
4. California Water Service Company shall file with the Commission a report, or reports, as required by General Order 24-B, which order, insofar as applicable, is 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 \$6,000.

Dated OCT 10 1979, at San Francisco, California.

John E. Byrne

President

James L. [unclear]

Robert D. [unclear]

Lawrence [unclear]

Commissioners

Commissioner Claire T. Dodrick, being necessarily absent, did not participate in the disposition of this proceeding.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By *[Signature]*