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Decision No. 92413 NOV 18 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA WATER SERVICE COMPANY, a corporation, to issue and sell $6,000,000 principal amount of its First Mortgage Bonds, Series Y, and to execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture.	Application No. 59934 (Filed September 12, 1980) and Amendment (Filed November 4, 1980)

O P I N I O N

California Water Service Company (Cal Water) seeks authority (a) to issue and sell by private sale not to exceed $6,000,000 principal amount of its First Mortgage Bonds, Series Y, (b) to execute and deliver a Thirtieth Supplemental Indenture and, (c) to exempt the issuance and sale of Series Y Bonds from the Commission's competitive bidding rule.

This application, as amended, is made pursuant to Sections 818 and 851 of the Public Utilities Code. Notice of the filing of the application and amendment were published on the Commission's Daily Calendar of September 15, and November 4, 1980. No protests have been received.

Cal Water is a California corporation engaged in the business of providing water service to many localities in the state from Chico to the Palos Verdes Penninsula. For the twelve months ended June 30, 1980, the utility generated operating revenues of $56,547,461 and net income of $6,655,085.

The company's balance sheet as of June 30, 1980 is summarized from Exhibit A attached to the application as follows:

Assets	Amount
Net utility plant	$180,136,842
Other physical property	588,332
Sinking funds	4,407
Current assets	8,078,411
Deferred charges	1,363,836
Total	$190,171,828
Liabilities and Net Worth	
Common equity	$ 58,460,471
Preferred stock	6,627,825
First mortgage bonds	76,892,290
Notes payable	2,900,000
Current liabilities	6,768,339
Advances for construction	29,277,430
Contributions in aid of construction	8,915,778
Miscellaneous reserves	329,695
Total	$190,171,828

Unreimbursed capital expenditures reported by Cal Water as of June 30, 1980 totaled $83,314,264. Excluding projects to be financed by advances for construction and contributions in aid of construction, the utility estimates that gross construction outlays for 1980 will amount to $8,906,000 of which 60% will be financed with internally generated funds.

Cal Water proposes to issue and sell on a private placement basis, $6,000,000 principal amount of its First Mortgage Bonds, Series Y, during November, 1980. The bonds would be secured by an existing indenture as previously supplemented, and by a proposed Thirtieth Supplemental Mortgage of Chattels and Trust Indenture as amended which would create the new series and further secure payments of principal on all bonds outstanding. A form of the proposed supplemental indenture is attached to the application as Exhibit H.

Cal Water has not yet entered into any contract for the disposition of the bonds, but the utility has a tentative commitment until June 30, 1981 from Aetna Life and Casualty Co. (Aetna). The bonds would be purchased either by Aetna or one or more of its insurance subsidiaries or by a separate account maintained by one of its subsidiaries. The proposed principal terms are as follows: Interest rate on the proposed bonds will be 13%. They will be dated November 1, 1980 and mature November 1. 2000. They will have an average life of 13 years and a 10-year restricted redemption provision. The sales price will be 100% of the principal amount.

Cal Water will furnish the Commission a copy of the agreement as soon as such document is available. The utility will not execute any underwriting agreement relating to the bonds, but proposes to pay an estimated $30,000 commission to Dean Witter Reynolds, Inc. for its services in negotiating the sale.

Cal Water offers the following reasons to support its request for exemption from the Commission's competitive bidding rule:

(a) "Applicant is not well known to potential bidders. Applicant proposes to sell only $6,000,000 in principal amount of its bonds, and an issue of this size is not sufficiently large to develop underwriting interest as the margin of profit would not afford a sufficient incentive to induce investment bankers to incur the expense incident to familiarizing themselves and potential buyers with Applicant's current position and to participating in competitive bidding. Yet public bidding would cause Applicant to incur substantially all of the expenses of registration under the Federal Securities Act of 1933 for printing, legal and accounting fees and similar matters which would be involved in a larger issue, and this expense does not appear warranted in view of the relatively small amount of bonds to be offered.

(b) "The fee of .5% to be paid to the agent, Dean Witter Reynolds, Inc., for arranging the private placement is substantially less than the underwriting discounts in public offerings.

(c) "Large institutional investors, including the one to whom it is proposed to sell these bonds for private placement, constitute the principal potential outlet for these bonds, and private placement is more attractive to these institutional investors, as it permits a more orderly timing of their investment program in that it gives them flexibility in timing the commitment of their funds.

(d) "Since 1976, Applicant has sold four series of bonds through private placements. In each case, the private placement has resulted in comparable or lower interest cost to the Applicant than public offerings made at the same time. This is illustrated by the graph on Exhibit G (attached to the application) which shows the average cost to the issuer of A-rated new bond issues compared with Applicant's private placements.

(e) "Denial of Applicant's request to issue the Series Y bonds in accordance with its tentative commitment to the purchaser because of future changes in conditions, would seriously undermine all California utilities' ability to negotiate private placements in the future. Institutional investors have been willing to stand by their commitments even when changes in interest rates have made the purchase unfavorable.

(f) "Applicant has had no recent exposure to the public underwriting marketplace."

In Decision No. 91984, dated July 2, 1980 for the San Diego Gas & Electric Company, Application No. 59633, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of underwriting groups will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

Because the proposed new bonds will be sold by private placement on terms which will be executed after the issuance of the decision and because of the staff's conclusion and belief that the new bonds will be sold at a cost as low, if not lower, than would prevail if they were to be sold at competitive bidding, we are of the opinion that applying, in this proceeding, the Commission's competitive bidding requirements and conditions set forth in Decision No. 91984, would not be in the best interests of Cal Water or its ratepayers. The rule would not operate in a manner so as to allow Cal Water's sale of the new bonds at the most favorable cost of money. However, we will also grant Cal Water the authority to issue the proposed new bonds by means of a competitive offering.

Cal Water is put on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of interest expense if it is determined that the cost of money incurred was not the most prudent.

Cal Water's capitalization ratios at June 30, 1980, recorded, and pro forma at June 30, 1980 after giving effect to (a) the proposed issuance of $6,000,000 principal amount of Series Y First Mortgage Bonds, and (b) the retirement of $3,969,000 of Series G First Mortgage Bonds, are set forth below:

	Recorded	Pro Forma
Long-term debt	54.1%	54.7%
Preferred stock	4.7	4.6
Common equity	41.2	40.7
Totals	100.0%	100.0%

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 Bonds would be for proper purposes.

2. The proposed Thirtieth 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, as amended.

4. The proposed restricted redemption provision is reasonable.

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

6. 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.

7. The sale of the proposed bonds should not be required to be through competitive bidding.

Conclusions of Law

1. A public hearing is not necessary.

2. The application, as amended, 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.

ORDER

IT IS ORDERED that:

1. California Water Service Company, on or after the date hereof and on or before June 30, 1981, may issue, sell, and deliver its First Mortgage Bonds, Series Y, in an aggregate principal amount not to exceed $6,000,000 hereby exempted from the Commission's competitive bidding rule and in accordance with the terms and conditions to be negotiated as described in the application, as amended, or may issue, sell, and deliver these bonds by means of a competitive offering.

2. California Water Service Company may execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture (Thirtieth Supplemental Indenture) in substantially the same form as Exhibit H attached to the application, as amended.

3. California Water Service Company shall apply the proceeds from the sale of the Series Y Bonds to the purposes specified in the application, as amended.

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.

5. Promptly, after executing the contract of sale of its First Mortgage Bonds, Series Y, California Water Service Company shall file a copy of the contract and a written report with the Commission, showing the interest rate and the cost of money to the company based on such price and interest rate.

6. In the event California Water Service Company utilizes competitive bidding, in lieu of the notification required by Ordering Paragraph 5 hereof, it shall file with the Commission a written report showing as to each bid received, the name of the bidders, the price, the interest rate, the cost of money to it based upon the price and interest rate, and as soon as

available shall file with the Commission three copies of the prospectus pertaining to the bonds sold.

7. 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 $7,000.

Dated NOV 18 1980, at San Francisco, California.

President

Commissioners

PUBLIC UTILITIES COMMISSION
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