

ORIGINAL

Decision 93847 DEC 15 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA WATER)
SERVICE COMPANY, a corporation,)
to issue an additional amount)
of its common stock pursuant to)
its Dividend Reinvestment Plan.)

Application 61002
(Filed October 22, 1981)

O P I N I O N

California Water Service Company (Cal Water) seeks authorization to issue up to 150,000 shares of its authorized but unissued common stock to implement a dividend reinvestment plan (plan).

This application is made under Public Utilities (PU) Code Section 818. Notice of the filing of the application was published on the Commission's Daily Calendar of October 23, 1981.

Cal Water is a California corporation engaged in the business of providing public utility water service to customers in many localities throughout the State. For the 12 months ended June 30, 1981, Cal Water generated operating revenue of \$64,790,606 and net income of \$8,914,575.

Cal Water's balance sheet as of June 30, 1981, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net utility plant	\$190,244,968
Other physical property	213,665
Sinking funds	3,756
Current assets	8,716,470
Deferred charges	1,263,255
Capital stock expense	<u>197,846</u>
Total	\$200,639,960
 <u>Liabilities and Net Worth</u>	
Common capital	\$ 62,547,506
Preferred stock	6,608,350
First mortgage bonds	78,396,760
Notes payable	2,900,000
Current liabilities	8,003,961
Advances for construction	32,146,114
Contributions in aid of construction	9,698,797
Miscellaneous reserves	<u>338,472</u>
Total	\$200,639,960

In its application Cal Water states that on January 1, 1982, Section 321 of the Economic Recovery Tax Act of 1981 (Act) adding Section 305(e) to the Internal Revenue Code becomes effective. This provision is designed to create a substantial tax advantage for those qualified shareholders of a qualified public utility who elect to receive dividends on their stock in common stock issued by the utility which declared the dividend, in lieu of receiving such dividends in cash. Cal Water points out that subject to applicable provisions of the Act, stock issued according to the provisions of Section 305(e) will not be taxed as a dividend when received, but rather would be taxed as a capital gain if such stock is sold after one year.

Cal Water needs to raise additional equity capital to repay short-term borrowings. It also wishes to permit its common shareholders to realize the benefits of this change in the federal income tax law by instituting a plan satisfying the requirements of

Section 305(e). The plan applies to all common shareholders regardless of whether or not they qualify for the tax benefits afforded by Section 305(e). Under the plan, a common shareholder may elect to receive in the form of common shares issued by Cal Water either all of the dividends on the common shares of Cal Water registered in the name of the shareholder on the record date for such dividends, or the dividends on any stated portion of such shares. The portion of a share payable on each share of common stock will be determined by dividing the amount of the cash dividend by the average of the bid and asked prices for Cal Water's common stock as quoted in the over-the-counter market on the payment date. No commission or service charge will be payable by participants in connection with issuance of shares under the plan. Cal Water has furnished the Commission a copy of the plan in the form adopted.

Cal Water states that in its view shares issued under the plan need not be registered with the Securities and Exchange Commission under the Securities Act of 1933 because their issue will not involve a "sale" within the meaning of Section 2(3) of that act. Cal Water has requested a "no action" letter to that effect from the Securities and Exchange Commission.

Cal Water has reserved 150,000 of its authorized but unissued common shares for issuance under the plan during the period January 1, 1982 through December 31, 1985. It proposes to issue up to 150,000 shares of its common stock, par value \$12.50 per share, during the period according to provisions of the plan. The purpose for which those common shares will be issued will be to increase Cal Water's equity capital base, to pay short-term borrowings, and to satisfy those of its common shareholders who, under the plan, have elected to receive dividends in common shares in lieu of cash dividends.

Cal Water's capitalization ratios at June 30, 1981, recorded, and at June 30, 1981, pro forma, after giving effect to the proposed issuance of 150,000 shares of its common stock at a price equal to the \$31.50 per share average of the bid and asked prices on June 30, 1981, are as follows:

	<u>June 30, 1981</u>	
	<u>Recorded</u>	<u>Pro Forma</u>
First mortgage bonds	53.2%	51.5%
Preferred stock	4.5	4.3
Common stock	<u>42.3</u>	<u>44.2</u>
Total	100.0%	100.0%

The Commission has considered the application and concludes that the proposed issuance of common shares under the plan is appropriate.

Findings of Fact

1. Cal Water is a California corporation operating under the jurisdiction of this Commission.
2. The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.
3. There is no known opposition and there is no reason to delay granting the authority requested.
4. Issuance of up to 150,000 of Cal Water's common shares to those of its common shareholders who have elected to receive stock dividends in lieu of cash dividends is appropriate.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted.

The number of shares outstanding, the total par (stated) value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a

finding of the value of the utility's stock or property, nor does it indicate the amounts to be included in ratesetting proceedings.

O R D E R

IT IS ORDERED that:

1. On or after January 1, 1982, and on or before December 31, 1985, California Water Service Company (Cal Water) may issue up to 150,000 shares of its authorized but unissued common stock under its dividend reinvestment plan.

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

The authority granted by this order to issue stock will become effective when Cal Water pays \$5,725, set by PU Code Section 1904.1. In all other respects this order becomes effective 30 days from today.

Dated DEC 15 1981, at San Francisco, California.

JOHN E. BRYSON
President
EDWARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

John E. Bobovitz
John E. Bobovitz, Executive Director

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
02770
DEC 17 1981
\$ 5,725.00
By *[Signature]*