

Decision No. 32470

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of SOUTHERN CALIFORNIA WATER COMPANY, for an order authorizing it to issue and sell \$3,500,000 principal amount of its First Mortgage 3-3/4% bonds, Series A, and \$500,000 principal amount of its 2-3/4% serial notes to provide funds for the redemption of all of its First Mortgage 4 1/2% bonds, series of 1960, in the principal amount of \$3,717,000, and for additional working capital.

ORIGINAL

Application No. 23315

BY THE COMMISSION:

O P I N I O N

Southern California Water Company seeks authority as follows, to-wit:

1. To execute and deliver a mortgage or trust deed, hereinafter referred to as an indenture, to secure the payment of First Mortgage bonds. A copy of said indenture (draft of February 29, 1940) was filed in this proceeding on March 8, 1940;
2. To issue and sell at not less than 101 1/2% of their face value \$3,500,000 of First Mortgage 3-3/4% bonds, Series A, due March 1, 1970;
3. To issue and deliver \$500,000 face value of serial notes bearing interest at the rate of 2-3/4% per annum and maturing at dates hereinafter indicated;
4. To use the proceeds realized from the issue and sale of said bonds and said notes to redeem its \$3,717,000 First Mortgage 4 1/2% bonds, series of 1960, now outstanding, to pay expenses incident to the issue of said bonds and said notes and for working capital.

Southern California Water Company is a public utility engaged in, amongst other things, providing, distributing, and supplying water in certain areas within the Counties of Los Angeles, Orange, San Bernardino, Ventura, Imperial and Sacramento, and in furnishing, distributing and supplying electricity at Bear Valley in San Bernardino County. The company also owns and operates an ice plant at Barstow, San Bernardino County.

Under the authority granted by the Railroad Commission's Decision No. 28457, dated December 31, 1935; under Decision No. 30009, dated August 9, 1937, as amended by Decision No. 30066, dated August 23, 1937, and under Decision No. 32542, dated August 8, 1939, applicant issued \$3,750,000 of its First Mortgage $4\frac{1}{2}\%$ bonds. Of these bonds \$3,717,000 are now outstanding. They mature October 1, 1960. However, applicant intends to redeem said bonds on April 1, 1940. On \$3,617,000 of said bonds, it must upon their redemption pay a premium of 4% of the face value of the bonds. \$100,000 of said bonds were sold by applicant in 1939 at the price of 100% of their principal amount under an agreement with the holder of said bonds to accept par thereof if all of applicant's bonds are redeemed. Exclusive of the accrued interest, applicant will have to expend \$3,861,680 to redeem said \$3,717,000 of $4\frac{1}{2}\%$ bonds.

To obtain the funds necessary to effect such redemption, applicant has entered into an agreement under the terms of which it will sell to the Equitable Life Assurance Society of the United States \$3,500,000 of First Mortgage $3\text{-}3/4\%$ bonds, Series A. It has also entered into an agreement with Harris Trust & Savings Bank of Chicago for a loan of \$500,000 represented by $2\text{-}3/4\%$ serial notes.

The payment of the bonds will be secured by an indenture, executed to the Bank of America National Trust & Savings Association, Trustee. A copy of this indenture (draft of February 29, 1940) was filed, as said, in this proceeding on March 8, 1940. We have reviewed the same and find it to be in satisfactory form. Any amendments or modifications of the indenture should be submitted to the Commission for its approval.

The \$3,500,000 of First Mortgage 3-3/4% bonds will be dated March 1, 1940, and mature March 1, 1970. The company in Article Ten of the indenture reserves the right to redeem said bonds at any time, and from time to time, in whole or in part, by paying the accrued interest and percentages of the principal amount of bonds redeemed, as follows:

At 106% if redeemed on or before March 1, 1942; at 105-3/4% if redeemed thereafter and on or before March 1, 1944; at 105-1/2% if redeemed thereafter and on or before March 1, 1946; at 105-1/4% if redeemed thereafter and on or before March 1, 1948; at 105% if redeemed thereafter and on or before March 1, 1949; at 104-3/4% if redeemed thereafter and on or before March 1, 1950; at 104-1/2% if redeemed thereafter and on or before March 1, 1951; at 104-1/4% if redeemed thereafter and on or before March 1, 1952; at 104% if redeemed thereafter and on or before March 1, 1953; at 103-3/4% if redeemed thereafter and on or before March 1, 1954; at 103-1/2% if redeemed thereafter and on or before March 1, 1955; at 103-1/4% if redeemed thereafter and on or before March 1, 1956; at 103% if redeemed thereafter and on or before March 1, 1957; at 102-3/4% if redeemed thereafter and on or before March 1, 1958; at 102-1/2% if redeemed thereafter and on or before March 1, 1959; at 102-1/4% if redeemed thereafter and on or before March 1, 1960; at 102% if redeemed thereafter and on or before March 1, 1961; at 101-3/4% if redeemed thereafter and on or before March 1, 1962; at 101-1/2% if redeemed thereafter and on or before March 1, 1963; at 101-1/4% if redeemed thereafter and on or before March 1, 1964; at 101% if redeemed thereafter and on or before March 1, 1965; at 100-3/4% if redeemed thereafter and on or before March 1, 1966; at 100-1/2% if redeemed thereafter and on or before March 1, 1967; at 100-1/4% if redeemed thereafter and on or before March 1, 1968; and at 100% of the principal amount thereof if redeemed subsequent to March 1, 1968, and prior to maturity.

The indenture requires the company to provide a sinking and improvement fund for the Series A bonds. On bonds redeemed

through the use of monies in such fund, the company must pay the accrued interest and percentages of the principal amount of bonds redeemed, as follows:

- 101 $\frac{1}{2}$ % of the principal amount thereof if redeemed on or before March 1, 1951;
- 101 $\frac{1}{4}$ % of the principal amount thereof if redeemed thereafter and on or before March 1, 1955;
- 101% of the principal amount thereof if redeemed thereafter and on or before March 1, 1959;
- 100- $\frac{3}{4}$ % of the principal amount thereof if redeemed thereafter and on or before March 1, 1963;
- 100 $\frac{1}{2}$ % of the principal amount thereof if redeemed thereafter and on or before March 1, 1967;
- 100 $\frac{1}{4}$ % of the principal amount thereof if redeemed thereafter and on or before March 1, 1968; and
- 100% of the principal amount thereof if redeemed subsequent to March 1, 1968 and prior to maturity.

The \$500,000 face amount of serial notes, as indicated, will be sold to the Harris Trust & Savings Bank of Chicago. They will carry interest at the rate of 2- $\frac{3}{4}$ % per annum and mature as follows:

<u>Maturity periods after date</u>	<u>Total principal amounts maturing</u>
9 months after date	\$ 60,000
15 "	40,000
21 "	40,000
27 "	40,000
33 "	40,000
39 "	40,000
45 "	40,000
51 "	40,000
57 "	40,000
63 "	40,000
69 "	40,000
75 "	<u>40,000</u>
Total	<u>\$500,000</u>

The company reserves the right at any time or from time to time upon 30 days' written notice to each of the holders of such notes to prepay the principal of any notes (but, unless all of the notes are concurrently prepaid, only in inverse order of their maturity dates and in amounts not less than the total principal amount of any note due at any maturity date) subject to

the payment of interest accrued on such principal to the date of its prepayment and, if such prepayment is made on or before the expiration of 60 months after the date of issue of the notes, a premium of $\frac{3}{4}$ of 1% of the principal prepaid, which premium shall, however, be reduced by $\frac{1}{8}$ of 1% of such principal for each full period of 12 months elapsed between the date of the issue of the notes and the date of each such prepayment. If the prepayment is made from the proceeds of equity financing or from the proceeds of the sale of any of the company's fixed properties or out of the net income of the company accruing after December 31, 1939, after deducting from such net income the aggregate of all sums expended in the purchase or other retirement of capital stock and for the payment of dividends accruing to December 31, 1939, no premium shall be payable with respect thereto even though made prior to the expiration of 60 months after the date of the issue of such notes.

Southern California Water Company has outstanding \$1,548,300 of common stock and \$500,000 of 6% preferred stock. In the proposed trust indenture it covenants (Section 84) that so long as any of the Series A bonds shall be outstanding it will not declare or pay any dividends (other than stock dividends) or make any other distribution on its common stock or to the holders thereof or purchase or otherwise retire any shares of its stock of any class (other than from the proceeds from the sale of its stock) unless such declaration, payment, purchase, retirement or distribution shall be made out of the net income or the net profits of the company then available for dividends determined in accordance with the system of accounts proscribed by the Railroad Commission of the State of California or in the absence of such a system in accordance with sound accounting practice, accumulated since December 31,

1939. Reference is here made to said Section 84 for further limitations upon the payment of dividends on applicant's common stock.

There has been no conclusive showing made that applicant needs additional working capital. The bond and note proceeds not needed to redeem the $4\frac{1}{2}\%$ bonds and pay expenses incident to the issue of said bonds and said notes should be deposited in a special bank account and expended for additions and betterments to applicant's properties.

ORDER

The Commission having considered applicant's requests and it being of the opinion that this is not a matter on which a hearing is necessary, that applicant should be authorized to issue the bonds and notes to which reference is made in the foregoing opinion, that the money, property or labor to be procured or paid for by the issue of said bonds and said notes are reasonably required for the purposes specified in this order, that except as to monies used to pay expenses incident to the issue of said bonds and said notes, the expenditures for said purposes are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order, therefore

IT IS HEREBY ORDERED as follows:

1. Southern California Water Company may, after the effective date hereof and prior to May 1, 1940, execute an indenture substantially in the same form as the indenture (draft of February 29, 1940) filed in this proceeding on March 8, 1940, provided that the authority herein granted to execute said indenture is for the purpose of this proceeding only, and is granted only

insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said indenture as to such other legal requirements to which it may be subject, and provided further that any amendments or modifications of said indenture shall be submitted to the Commission for approval.

2. Southern California Water Company may, after the effective date hereof and prior to May 1, 1940, issue and sell at not less than 101 $\frac{1}{2}$ % of their face value and accrued interest \$3,500,000 of First Mortgage 3-3/4% bonds, Series A, due March 1, 1970.

3. Southern California Water Company may, after the effective date hereof and prior to May 1, 1940, issue and sell at not less than their face value and accrued interest \$500,000 of 2-3/4% serial notes maturing at dates indicated in the foregoing opinion.

4. Southern California Water Company may use the proceeds realized from the issue and sale of said bonds and said notes to redeem its \$3,717,000 of 4 $\frac{1}{2}$ % bonds to pay expenses incident to the issue and sale of said bonds and said notes and pay the cost of additions and betterments chargeable to fixed capital accounts under the classification of accounts prescribed by the Commission.

5. The authority herein granted will become effective when Southern California Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Two Hundred and Eighty-three (\$283.00) Dollars.

6. Southern California Water Company shall within thirty (30) days after the execution of the indenture herein authorized to be executed, file with the Railroad Commission two certified copies of said indenture.

7. Southern California Water Company shall within sixty (60) days after the issue of said \$3,500,000 of bonds and said \$500,000 of notes file with the Railroad Commission a statement showing in detail the expenses which it incurred because of the issue and sale of said bonds and said notes.

8. Southern California Water Company shall file with the Railroad Commission monthly reports such as are required by the Commission's General Order No. 24-A which order insofar as is applicable is made a part of this order.

Dated at San Francisco, California, this 19th day of March, 1940.

Ray L. Rice
Frank B. Baker
D. B. Baker
H. Baker
Justus J. Calver
Commissioners.

See Ord.
28300
2-19-40
H. G. Matheson
Sec

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