

Decision No. 52617

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of }
SOUTHERN CALIFORNIA WATER COMPANY }
for authority to issue its 4-1/4% }
Convertible Subordinated Notes due }
February 1, 1976, in the aggregate }
principal amount of \$2,000,000. }

Application
No. 37678

O P I N I O N

Southern California Water Company has filed this application for authorization to issue \$2,000,000 in aggregate principal amount of 4-1/4% Convertible Subordinated Notes.

Terms of Notes

The notes will be unsecured. They will be dated February 1, 1956, will mature February 1, 1976, will bear interest at the rate of 4-1/4% per annum and will be subject to prepayment at the option of the company at any time upon payment of a premium of 4-1/4% if paid during the twelve months ending January 31, 1957, and thereafter at a decreasing premium each year. The company will be required to pay on the principal, without premium, on February 1 in each year beginning in 1976, annual amounts equal to 10% of the aggregate principal amount of notes outstanding on December 1, 1966.

It will be provided that the notes are to be subordinated and junior, in respect to principal and interest and in all other respects, to all other indebtedness of the company heretofore or hereafter incurred except indebtedness, if any, which by its terms is specifically made on a parity with the notes.

As a further feature, the notes will be convertible at the option of the holders, into fully paid common shares. The initial conversion basis will be 60 common shares for each \$1,000 of principal to be converted, thus resulting in an initial conversion price of such shares of \$16.66-2/3 a share. The initial conversion basis will be subject to adjustment, in the event of certain happenings, in order to prevent dilution of the conversion rights.

Sale of Notes

The application shows that the company has undertaken negotiations to sell the notes, at the principal amount plus accrued interest, to institutional investors as follows:

Massachusetts Mutual Life Insurance Company	\$ 700,000
The Lincoln National Life Insurance Company	570,000
Aid Association for Lutherans	250,000
Equitable Life Insurance Company of Iowa	240,000
Berkshire Life Insurance Company	120,000
Central Life Assurance Company	<u>120,000</u>
Total	<u>\$2,000,000</u>

Purpose of Issue of Notes

Subject to receiving authorization from the Commission applicant intends to use the proceeds to be obtained from the sale of its notes, exclusive of accrued interest, to retire outstanding bank loans and to reimburse its treasury for expenditures from income, or other treasury money, for the acquisition of property or the construction, completion, extension or improvement of its facilities during 1956.

The outstanding bank loans, totalling \$1,400,000 at the close of 1955, are represented by 3-1/4% notes due June 30, 1957, which were issued to Harris Trust and Savings Bank in 1955 pursuant to

authorization granted by the Commission by Decision No. 51003 in Application No. 36601. The water company has the right to accelerate payment.

With reference to the use of the proceeds not needed to pay bank loans the company reports its estimated expenditures for capital purposes during 1956 as follows:

Water systems -		
Supply	\$	596,600
Distribution		1,835,525
Operating equipment		109,400
Contingencies		270,475
Sub-total		<u>2,812,000</u>
Electric system		62,000
Ice plant		1,000
General office		25,000
Construction equipment		45,000
Total		<u>2,945,000</u>
Less - advances for construction		<u>477,900</u>
Net cost		<u><u>\$2,467,100</u></u>

Financial Position

In a financial statement filed as Exhibit A, applicant reports current assets as of November 30, 1955, at \$1,902,392 and, on the other side of the balance sheet, current liabilities at \$1,355,877 and advances for construction at \$1,776,550. It reports its net utility plant at \$20,567,286 and its capitalization, exclusive of advances, as follows:

Long-term debt -		
First mortgage bonds	\$	8,980,000
Bank loans		1,200,000
Total long-term debt		<u>10,180,000</u> 54.7%
Preferred stock		2,140,970 11.5
Common stock and surplus		<u>6,293,356</u> 33.8
Total		<u><u>\$18,614,326</u></u> 100.0%

The company's income statement for the 12 months ended November 30, 1955, shows gross income available for fixed charges of

\$1,085,444, after making provision for depreciation and income taxes, and interest charges on long-term debt of \$302,021, indicating interest coverage of about three and one-half times after all charges.

The equity capital includes 627,644 shares of common stock of the par value of \$5.00 each and with a book value, on the basis of the November, 1955, balance sheet of about \$10.00 a share. For a number of years applicant paid dividends on its common shares at the rate of \$.65 and in 1954 it increased the rate to \$.675.

The following tabulation, compiled from applicant's reports, indicates the growth of its properties and business. The figures set forth the increase during the periods indicated of the plant accounts, the revenues from the water systems, which account for more than 90% of the total, the net income and the active service connections on the water lines.

	<u>Increase in Plant</u>	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Service Connections</u>
1952	\$2,940,116	\$2,532,060	\$444,779	81,302
1953	1,839,173	3,127,471	568,299	87,970
1954	2,298,664	3,477,645	660,136	92,067
1955 (1)	2,299,167	3,944,992	744,894	(2)

(1) To November 30, 1955.

(2) Not reported in filed statement.

Conclusions

This utility has been before the Commission from time to time in formal proceedings involving its rates and the Commission has reviewed its operations and earnings. It is clear, from the information before the Commission, that the company has been faced, and is faced, with the problem of raising funds from external sources for capital requirements to meet the demands of applicants for service.

Upon considering the matter presented in this application the Commission is of the opinion that the company has need for the funds

to be obtained from the proposed notes, that the money, property or labor to be procured or paid for by such notes is reasonably required for the purposes specified herein and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

An order will be entered granting the application. The approval herein given is for the issue and sale of notes only and is not to be construed as indicative of amounts to be included in future rate bases for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary and that the application should be granted, therefore,

IT IS HEREBY ORDERED as follows:

1. Southern California Water Company, on or after the effective date hereof and on or before August 31, 1956, may issue and sell not exceeding \$2,000,000 in principal amount of 4-1/4% Convertible Subordinated Notes at not less than the principal amount plus accrued interest and use the proceeds for the purposes specified in the application. The accrued interest may be used for such purposes or for general corporate purposes.

2. Applicant shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$ 600.00.

Dated at Los Angeles, California, this 14th day of February, 1956.

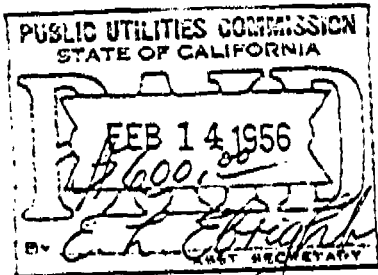
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