

A public hearing in this matter was held before Commissioner Rex Hardy and Examiner Stewart C. Warner on February 7, 1956, at Los Angeles. There were no protests to the granting of the application.

By said Decision No. 51192, applicant was granted a certificate of public convenience and necessity to operate within the service area of La Mirada Water Company, a corporation.^{1/} Authority was granted applicant by said decision to acquire certain of the assets of La Mirada and to continue to apply La Mirada's rates to the area certificated to applicant, and to issue and sell on or before September 1, 1955, 3,000 shares of common stock for \$150,000 cash and 2,000 shares of Class A 5-1/4% preferred stock for \$100,000 cash to finance the acquisition of the assets of La Mirada, to pay for additions and betterments and to provide working capital, and to issue 4,000 shares of common stock for \$200,000 for advances for construction, and to issue notes for \$56,000, and to execute conditional sales contracts for amounts not exceeding \$17,500 for the purchase of pipe and meters from Whittier Utility Supply Company.

Southwest's service area as shown on the map, Exhibit No. 6, now includes area originally certificated to applicant plus the area formerly served by Crystal Mutual Water Company, a mutual water company acquired by applicant, whose service area is immedi-

^{1/} Decision No. 49169, dated September 29, 1953, granted La Mirada Water Company, a corporation, a certificate of public convenience and necessity to construct and operate a public utility water system in a portion of Los Angeles County northwest of Buena Park, Orange County.

ately adjacent to applicant's in the northwest corner, and subdivisions immediately adjacent and contiguous on the west to applicant's certificated area in its north central portion thereof. Said service area comprises approximately 2,000 acres.

As of January 1, 1955, applicant was furnishing water service to approximately 100 consumers and by December 31, 1955, there were approximately 1,500 consumers with two or three thousand homes under construction, and an anticipated growth to between eight and nine thousand customers within the next four or five years. The record shows that applicant has ample sources of water supply from its own well, from the ownership of some 400 shares of stock of California Domestic Water Company, a mutual irrigating company which entitles applicant to between 360 and 500 gallons per minute, a new well with a tested production of 800 gallons per minute, an additional well which is being drilled, and a proposed connection with a Metropolitan Water District 60-inch transmission line.

A summary statement of applicant's assets, liabilities and capital as of December 31, 1955, is as follows:

Assets

Fixed Capital	\$759,119	
Less-Depreciation Reserve	<u>69,032</u>	\$690,087
Franchises and Water Company Stocks		65,354
Current and Other Assets		<u>155,261</u>
Total		\$910,702

Liabilities and Capital

Current Liabilities		\$251,333
Advances and Donations		310,259
Capital Stock and Surplus		<u>349,110</u>
Total		\$910,702

Applicant's captial ratios as of December 31, 1955, and as adjusted (pro forma) to give effect to the proposed issuance of securities, is as follows:

	<u>Dec. 31, 1955</u>	<u>Pro Forma</u>
Bonds	-	25%
Advances for Construction	47%	30
Preferred Stock	1	9
Common Stock Equity	<u>52</u>	<u>36</u>
Total	100%	100%

Exhibit No. 3 is a statement of the use of funds from the sale of bonds and stock requested herein to be authorized. According to said exhibit, applicant proposes to use the total of \$345,000 to be received from the sales as follows:

To pay bank loans	\$100,000
To make improvements to water system	199,500
To pay cost of financing	10,000
For operating capital	<u>35,500</u>
Total	\$345,000

The statement shows that applicant has a cash balance of \$35,000 on hand from bank loans to be repaid which, together with the additional operating capital to be secured, would provide \$70,500 of operating capital after sale of the bonds.

The bonds proposed to be issued bear interest at the rate of 5-1/2% per annum, payable semiannually, and are to be issued as coupon bonds. Applicant's witness, its president, testified that efforts had been made to secure funds at a lower interest rate but because of applicant's lack of operating and financial experience over a period of years the purchase agreement effected was the most favorable that applicant could secure.

The open end trust indenture provides that the interest rate will be reduced to 5% at such time that the company shall have

earned at the end of each three consecutive years net income, before taxes, equivalent to a minimum of two times actual interest charges on funded debt. The bonds are subject to redemption prior to maturity, at applicant's option, in whole or in part, on the payment of the principal amount thereof, plus accrued interest, plus a premium of 5% on the principal amount prior to November 1, 1956, initially, and declining each year thereafter by 1/4% through November 1, 1975. If funds for redemption are obtained from issues of other debt securities bearing interest of less than 5-1/2% per annum, applicant may not redeem the bonds prior to November 1, 1960.

The Commission has carefully reviewed the record in this proceeding and is of the opinion that the application should be granted. It appears that the applicant's earnings for payment of interest charges will be adequate.

Exhibit No. 7 shows that after giving effect to the financing proposed herein, total indebtedness including bonds and advances for construction will comprise 55 percent of applicant's capital structure. This Commission does not look with favor upon any permanent debt ratio of such magnitude, and applicant is put on notice that it should and will be required to procure its needed capital through the sale of its equity securities.

Applicant's request for an extension of time within which to issue and sell the balance in the total amount of \$95,000 of its Class A 5-1/4% preferred stock, authorized by Decision No. 51192, appears to be reasonable and will be granted.

The record shows that applicant's commitment to Bankers Life Insurance Company of Nebraska and the insurance company's commitment to applicant were to become effective before January 15, 1956, and that the sale of First Mortgage Bonds was to be at face value, plus accrued interest to that date. In order that

applicant may not be required to pay penalty interest charges this order will be effective on its date. It should be noted, however, that the following approval is for the issuance of securities only, and is not to be construed as indicative of amounts which will be included in any future rate base.

O R D E R

Application as above-entitled having been filed, a public hearing having been held, the matter having been submitted and now being ready for decision based upon the record and findings,

IT IS HEREBY ORDERED as follows:

1. a. That Southwest Water Company, on and after the effective date hereof, may execute and deliver the Purchase Agreement and Trust Indenture in substantially the form attached to the application as Exhibits A and B, respectively, and to issue pursuant thereto its First Mortgage Series A 5-1/2% bonds in the amount of \$250,000 for the purposes outlined in the preceding opinion, the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of bonds herein authorized is reasonably required by applicant for the purposes specified herein and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.
- b. The foregoing authorization is without prejudice to the authority of the Commission with respect to rates, service, accounts, valuation, estimates, or determinations of cost which may come before this Commission.
2. That the period of time within which applicant may sell and issue the balance totaling \$95,000 of its Class A preferred stock, the sale and issue of which was authorized by Decision No. 51192, is extended for twelve months from the effective date hereof.
3. That applicant shall file with the Commission monthly reports as required by General Order No. 24 A which order insofar as applicable is made a part of this order.

- 4. That applicant shall promptly institute, develop and consummate a program looking toward the sale of its equity shares of stock heretofore authorized to be issued, and shall report to this Commission in writing within thirty days after the effective date hereof and every thirty days thereafter for a period of one year as to the results of such equity stock sales program.
- 5. The authorization herein granted Southwest Water Company to issue bonds will become effective when it has paid the fee prescribed by Section 1904(b) of the Public Utilities Code which fee is \$250.
- 6. That in other respects the authorization herein granted will become effective on the date hereof.

Dated at San Francisco, California, this 6th day of March, 1956.

[Signature]
President

[Signature]

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Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA

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BY [Signature]