

**ORIGINAL**

Decision No. 56424

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BANNING WATER COMPANY,  
a California corporation, for permit  
authorizing it to issue and sell  
Series "a" First Mortgage and  
Collateral Bonds and to mortgage  
its properties.

Application No. 39826

O P I N I O N

Banning Water Company, applicant herein, is a California corporation engaged as a public utility in the distribution of water to domestic and irrigation consumers in and near Banning, California. In this application it seeks authorization to execute a trust indenture and to issue and sell \$420,000 of bonds for the purpose of refinancing outstanding indebtedness and of providing the costs of additions and improvements.

By Decision No. 54560, dated February 19, 1957, the Commission approved certain rate schedules for applicant which were designed to produce a return of 5% on a rate base of \$1,106,495 for the estimated year of 1957. The Commission included in the rate base certain amounts for water system improvements to be made in the future and it directed the company to report, in writing, its plans and steps for making these improvements, the costs and nature thereof, and the size, capacity and location of the principal facilities.

Applicant reports capital expenditures of \$57,934.79 in 1957 and it estimates its expenditures at \$108,164 for 1958, the latter amount including the following:

Structures	\$ 600
Chlorinator	5,000
Distribution mains	89,064
120 services	4,800
120 meters	3,600
2 pickup trucks	4,000
1 automatic calculator	800
Miscellaneous tools and equipmt.	<u>300</u>
Total	<u>\$108,164</u>

The application indicates that the company has borrowed \$68,000 from Security-First National Bank in proceeding with its improvement program and that it finds it necessary to borrow an additional \$100,000 to meet, in part, its 1958 costs. It has arranged to obtain the latter amount from The Northwestern Mutual Life Insurance Company, the borrowing to be represented by bonds secured by a first mortgage on applicant's properties.

Presently, applicant's properties are encumbered by a trust indenture issued by City Water Company of Banning, one of applicant's predecessors, which secures the payment of \$252,000 of bonds. In order that the new bonds might be secured by a first lien, it is necessary for applicant to refinance this existing indebtedness, which is represented by a closed mortgage, and to proceed with the execution of a new trust indenture and the creation of a new bonded debt. At this time, it proposes to sell \$420,000 of new bonds to take up the existing bonds of \$252,000, to pay the outstanding bank loan of \$68,000 and to provide \$100,000 in cash which should enable it to finance substantially all its 1958 plant additions.

The new bonds will bear interest at the rate of 5-1/2% per annum, will mature March 1, 1978 and will be callable at 105.50 if redeemed on or before March 1, 1962, and thereafter at reducing premiums, except that said bonds may not be refunded prior to March 1, 1968, either directly or indirectly, with proceeds of borrowings by the company at an effective interest cost of less than 5-1/2% per annum. However, the mortgage provides that on or before February 25, 1959, and on each February 25 thereafter, so long as any of said \$420,000 of bonds are outstanding, the company will pay to the trustee, as and for a sinking fund, an amount to retire \$17,000 principal amount of said bonds. The bonds are redeemable at face value and accrue interest for sinking fund purposes. The trust indenture further provides for the issue of additional first mortgage bonds up to a total authorized indebtedness of \$1,000,000 to provide 60% of the cost of net bondable additions after December 31, 1957, in excess of the \$100,000 of additions to be financed by the initial sale of bonds covered by this application.

Exhibit B indicates that applicant commenced its operations on May 28, 1957, and that during the remainder of that year its operating revenues amounted to \$132,259 and its net profit to \$27,282, after making provision for depreciation in the amount of \$13,599 and for taxes on income. Its balance sheet at the close of 1957 shows current assets in the amount of \$33,114 and current liabilities in the amount of \$109,113, including the bank loans now to be discharged. Its balance sheet further shows that applicant has outstanding long-term debt only in the amount of the \$252,000

to which reference has been made and capital stock and surplus in the amount of \$968,784. At the conclusion of the proposed financing, applicant's capital structure, based on the year-end balance sheet, will consist of bonds in the amount of approximately 30% of the total and equity capital of approximately 70%.

Upon a review of the application, it appears to us that applicant will have need for additional borrowings to liquidate its outstanding indebtedness and to proceed with its construction activities, so as to improve its facilities and service, and that its earnings and assets should be ample to support the proposed borrowing. However, the proposed financing arrangements appear to limit the authorized bonded debt to \$1,000,000 at any one time outstanding so that only \$580,000 of bonds will be available under the trust indenture for future requirements. While there is nothing now before us showing that applicant will have need for borrowings in excess of that amount, in the immediate future at least, still we are mindful of the fact that elsewhere in southern California other utilities have been experiencing a rapid and substantial growth and have been faced with the necessity of raising large sums of money to meet capital requirements. In our opinion, the form of the trust indenture should be modified so as to provide either for an open-end feature or for additional borrowings in a more substantial amount so as to avoid future refinancing operations.

We will enter our order authorizing the issue of the bonds subject to the modification of the form of the trust indenture, as here indicated. The authorization granted is not to be construed

as indicative of amounts to be included in a future rate base 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, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein, and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Banning Water Company may issue and sell not to exceed \$420,000 in principal amount of First Mortgage and Collateral Bonds, 5-1/2%, Series A, due 1978, at their principal amount, plus accrued interest, for the purposes set forth in this application. The accrued interest from the sale of the bonds may be used for said purposes or for general corporate purposes.

2. The authority herein granted will become effective when applicant has filed a revised copy of its proposed deed of trust modified as indicated in the preceding opinion, and the Commission has authorized the execution of the same, and when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$168.

3. Banning Water Company 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.

Dated at San Francisco, California, this 1st day of April, 1958.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]

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Commissioners

