

**ORIGINAL**

Decision No. 57755

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  
convertible subordinated debentures  
in the aggregate principal amount  
of \$2,000,000.

)  
Application No. 40649

O P I N I O N

In this application Southern California Water Company requests authorization to issue and sell \$2,000,000 in principal amount of its Convertible Subordinated Debentures and to issue shares of its common stock in exchange for and upon conversion of said debentures.

The debentures, which applicant proposes to issue, are to be dated January 1, 1959, are to mature on January 1, 1979, but are subject to prior redemption at the option of applicant at 105% of the principal amount, plus accrued interest, if redeemed during the 12 months ending December 31, 1959, and thereafter at a decreasing premium each year. During the period prior to January 1, 1964, applicant may not redeem any of the debentures through refunding by, or in anticipation of, its incurring any debt having an interest cost of less than 5% per annum. The debentures will also be subject to redemption through the operation of a sinking fund at the principal amount thereof, plus accrued interest. The sinking fund is to be established through payments by applicant on January 31, 1969, and on January 31 of each year thereafter to maturity, each such payment to be equal to 10% of the principal amount of the debentures

outstanding at the close of business on January 31, 1968, the applicant having the right to take credit against any sinking fund payment through the surrender of debentures having a face value equal in amount to the sinking fund payment.

The debentures applicant proposes to issue 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 and hereafter incurred except that represented by the 4-1/4% convertible subordinated notes due February 1, 1976, and to any indebtedness incurred after January 1, 1959, which, by its terms, is specifically made on a parity with or junior to the debentures.

As a further feature, the debentures will be convertible at the option of the holders at any time or, from time to time, prior to January 1, 1969, into fully paid and nonassessable common shares. The initial conversion price applicable to the conversion of debentures into shares of common stock as well as the interest rate to be borne by the debentures has not as yet been determined. Applicant proposes to file a supplemental application in this proceeding, setting forth said conversion price and interest rate.

The application shows that the company is currently negotiating for the sale of the proposed new issue of debentures with Dean Witter & Co. and Smith, Polian & Co., as underwriters. It is presently contemplated that the underwriters will make a public offering of these debentures, but it is expected that all or most thereof will be sold to a limited number of insurance companies or other institutional purchasers.

Subject to receiving authorization from the Commission, applicant intends to use the proceeds to be obtained from the sale of its debentures, 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 properties or the construction, completion, extension and improvement of its facilities during 1959.

The outstanding bank loans, totaling \$1,800,000 at November 30, 1958, are represented by 4% and 3-1/2% notes due February 15, 1959, which were issued to Harris Trust and Savings Bank and to California Bank in 1958. Applicant may borrow additional amounts from these banks and, if it does so it will give to them its promissory note maturing February 15, 1959, for each additional amount so borrowed. Notes representing any such additional borrowing will be included in those to be retired from the proceeds to be received by applicant from the sale of its debentures.

With reference to the use of the proceeds not needed to pay bank loans, the company reports that its proposed utility plant expenditures for the year 1959 are as follows:

<u>Water</u>	
Supply, storage and related facilities	\$ 479,900
Distribution system	999,900
Extension of mains to serve new customers	571,500
Meters and service connections	514,500
Total water	<u>2,565,800</u>
<u>Electric</u>	89,500
<u>General</u> (Including automobiles and office equipment)	169,700
Total utility plant expenditures	<u>2,825,000</u>
Less - Advances and donations	<u>550,000</u>
Net cost to company	<u>\$2,275,000</u>

In a financial statement filed as Exhibit A in this proceeding, applicant reports current assets as of October 31, 1958, at \$1,976,971, current liabilities at \$3,552,236 and advances for construction at \$2,517,453. The current liabilities thus referred to include notes payable in the amount of \$1,700,000. The balance sheet also shows that as of October 31, 1958, applicant's investment in utility plant, less reserve for depreciation, totaled \$27,998,503 and its capitalization, exclusive of advances, was as follows:

Long-term debt -		
First mortgage bonds	\$11,380,000	47.9%
Convertible notes	2,000,000	8.1
Bank loans	1,700,000	6.8
Total long-term debt	<u>15,580,000</u>	<u>62.8</u>
Preferred stock	1,987,465	8.0
Common stock and surplus	<u>7,231,593</u>	<u>29.2</u>
Total	<u>\$24,799,058</u>	<u>100.0%</u>

The company's income statement for the ten months ended October 31, 1958, shows gross income available for fixed charges at \$1,184,765, after making provision for depreciation and income taxes. Comparing such gross income with interest charges on long-term debt, amounting to \$455,584, indicates interest coverage of about two and one-half times.

The equity capital portion of the company's capitalization includes 648,583 shares of common stock of the par value of \$5 each and with a book value, based on the October 31, 1958 balance sheet, of about \$11 a share. For a number of years applicant paid dividends on its common shares at the rate of 65 cents a share. Effective December 1, 1954, the quarterly dividend was increased to 18-3/4 cents a share, or on an annual basis of 75 cents; effective June 1, 1956, the quarterly dividend was increased to 20 cents a share, or on an

annual basis of 80 cents; and effective September 1, 1957, the quarterly dividend was further increased to 22-1/2 cents a share, or on an annual basis of 90 cents.

The following tabulation, compiled from applicant's reports, indicates the growth of its properties and business. The figures set forth, during the periods indicated, the net increase in the plant account balances, 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>
1955	\$2,336,940	\$3,920,399	\$778,203	98,274
1956	2,954,080	4,296,640	820,257	103,192
1957	2,886,705	4,668,938	857,082	109,107
1958 (a)	2,512,939	4,552,531	722,719	(b)

- (a) To October 31, 1958 (10 months).  
 (b) Not reported in filed statement.

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 debentures, that the money, property or labor to be procured or paid for by such debentures is reasonably

required for the purposes specified herein and that the expenditures for such purposes are not, except as otherwise authorized, in whole or in part, reasonably chargeable to operating expenses or to income.

The authorization herein granted is for the issue and sale of securities 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:

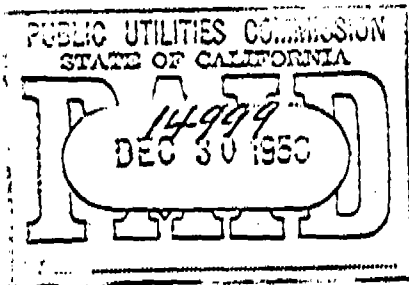
1. Southern California Water Company, on and after the effective date hereof and on or before June 30, 1959, may issue and sell not to exceed \$2,000,000 in principal amount of its Convertible Subordinated Debentures, plus accrued interest, and may issue shares of common stock in exchange for and upon conversion of the Convertible Subordinated Debentures. The price at which the debentures are to be sold and the common stock conversion price will be fixed by the Commission in a supplemental order in this proceeding. The accrued interest may be used for such purposes or for general corporate purposes.

2. Southern California Water Company shall use the net proceeds to be received from the issue and sale of such debentures to retire bank loans outstanding at the date of such sale and to reimburse its treasury for moneys actually expended from income, or for moneys not secured by or obtained from the issue of securities, for the purpose of acquiring properties or constructing, completing, extending and improving its facilities.

3. Southern California 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.

4. The authority herein granted to issue and sell the Convertible Subordinated Debentures will become effective when the Commission, by supplemental order, has fixed the price at which said Convertible Subordinated Debentures may be sold and when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,500.

Dated at San Francisco, California, this 30<sup>th</sup> day of December, 1958.



[Signature] Fox  
President  
[Signature]  
[Signature]  
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Commissioners