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Decision No. _____

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CARPINTERIA WATER COMPANY for authority to issue a note to PACIFIC MUTUAL LIFE INSURANCE COMPANY, a California Corporation, and for permission to mortgage its public utility properties to said PACIFIC MUTUAL LIFE INSURANCE COMPANY as security for payment of said note.

Application No. 41078

Cavalletto, Webster, Mullen & McCaughey,
by Thomas M. Mullen and A. A. Henzell,
for applicant.

O P I N I O N

Carpinteria Water Company has filed this application for authorization (1) to enter into a loan agreement with Pacific Mutual Life Insurance Company, (2) to execute a mortgage and (3) to issue notes in the principal amount of \$150,000 for the purpose of paying indebtedness and of financing the cost of additions to its facilities.

The application was filed on April 24, 1959. A public hearing was held before Examiner Coleman in Santa Barbara, on May 20, 1959, at which time the matter was taken under submission.

Under the terms of the proposed loan agreement, Pacific Mutual Life Insurance Company will advance to applicant an aggregate amount of \$150,000 to be represented by two notes, one in the amount of \$100,000 representing borrowings to be made on or before December 31, 1959, and the other in the amount of \$50,000

representing borrowings to be made on or before December 31, 1960. The borrowing of the \$50,000 is to be subject to applicant first obtaining additional equity capital of \$40,000.

The notes will bear interest at the rate of 5-3/4% per annum and will mature on January 1, 1979. They may be prepaid at the option of the company at a premium of 4.50% on and after January 1, 1969, but not before, and prior to January 1, 1970, and thereafter at premiums reducing annually in amount. The notes will be secured by a first mortgage on applicant's plant and facilities.

The purpose of the proposed financing is to provide applicant with funds to liquidate outstanding indebtedness of \$50,000, to meet expenses of \$5,000 incident to the loan, and to provide the cost of additions and improvements during 1959 and 1960, as set forth in the following tabulation:

	<u>1959</u>	<u>1960</u>	<u>Total</u>
Retire mortgage (Warren)	\$ 30,000		\$ 30,000
Retire loan (Sec.-First Nat.Bk.)	20,000		20,000
New facilities -			
Install water mains:			
6" 1,600 ft. @ \$6.25 per ft.	10,000		10,000
6" 4,800 ft. @ 6.25 per ft.		\$30,000	30,000
4" 1,000 ft. @ 4.00 per ft.		4,000	4,000
Miscellaneous improvements:			
Meters, services, etc.	7,500	12,500	20,000
Prepare new maps of mains, valves and services	1,500	3,500	5,000
Pumping equipment	4,000		4,000
Shop for general use and meter testing and repair	10,500		10,500
General equipment	11,500		11,500
Cost of obtaining loan	5,000		5,000
	<u>5,000</u>	<u>4,000</u>	<u>9,000</u>
Total	<u>\$100,000</u>	<u>\$50,000</u>	<u>\$150,000</u>

In considering this matter, we have reviewed applicant's financial reports. A summary statement, prepared from such reports, indicating applicant's recorded investment in plant and its revenues, net income and services for the past five years, is as follows:

	<u>Plant</u> <u>Dec. 31</u>	<u>Services</u> <u>Dec. 31</u>	<u>Revenues</u> <u>for Year</u>	<u>Net Income</u> <u>for Year</u>
1954	\$265,651	1,051	\$50,757	\$6,005
1955	275,983	1,034	49,667	5,612
1956	290,697	1,044	50,796	4,637
1957	335,837	1,187	56,818	7,947
1958	384,721	1,478	63,826	5,357

Analysis indicates that applicant has met its capital costs primarily with proprietary capital and advances and donations for construction and, to a smaller extent, with debt financing. A condensed statement showing applicant's financial condition as of December 31, 1958, is as follows:

<u>Assets</u>		
Utility plant	\$384,721	
Less - reserves	<u>132,392</u>	
Net utility plant		\$252,329
Sinking funds		888
Current assets		<u>18,601</u>
Total		<u>\$271,818</u>
<u>Liabilities and Capital</u>		
Current liabilities -		
Note payable	\$ 20,000	
Accounts payable	19,857	
Other current liabilities	<u>3,150</u>	
Total current liabilities		\$ 43,007
Long-term debt		30,000
Advances for construction		74,386
Miscellaneous reserves		888
Contributions in aid of construction		22,571
Capital -		
Common stock	40,000	
Surplus	<u>60,966</u>	
Total capital		<u>100,966</u>
Total		<u>\$271,818</u>

The outstanding \$20,000 note is an unsecured 5-1/2% obligation in favor of Security-First National Bank which matured May 14, 1959. The \$30,000 long-term debt is a secured 5% obligation in favor of Thomas C. Warren and Joan M. Warren which will mature November 1, 1967. The notes were issued under authorization granted by the Commission. The outstanding common stock consists of 400 shares of the par value of \$100 each. For a number of years applicant has paid annual dividends of \$2,000, being at the rate of 5% of the par value.

Applicant's capital ratios as of December 31, 1958, and as adjusted to give effect to the additional note and the required equity financing, are as follows:

	<u>Dec. 31, 1958</u>	<u>As Adjusted</u>
Long-term debt	13%	41%
Other debt	9	-
Advances for construction	33	20
Common stock equity	<u>45</u>	<u>39</u>
Total	<u>100%</u>	<u>100%</u>

Upon a full review of this application it appears to us that applicant does not have sufficient internal resources to finance its construction costs, that additional financing is necessary if applicant is to go forward with its plans to extend its facilities, and that applicant's financial structure and earnings are adequate to support the proposed debt capital. While we may not look with favor on the ten-year non-callable provision of the loan agreement, the record shows that restricted redemption features are usual in current corporation financing and that, after exploring various possible sources of capital, applicant was unable to obtain terms, with respect to interest rate, maturity

or redemption provisions, which were as favorable as those contained in the proposed loan agreement with Pacific Mutual Life Insurance Company. A witness testified that in his opinion, based on his experience in negotiating this and other loans, the applicant corporation would be unable to obtain funds without a protective redemption feature and that in view of prevailing market conditions, especially considering the small size of proposed loan and the increases in interest rates since the loan was negotiated, it would be likely applicant, if it could get a loan, would be required to pay a higher interest rate should it be compelled to re-negotiate the loan at this time. Upon the basis of the information before us we are of the opinion that an order is warranted authorizing the issue of the notes under the terms set forth in this proceeding.

The authorization herein 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

A public hearing having been held in the above-entitled proceeding and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of the notes 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:

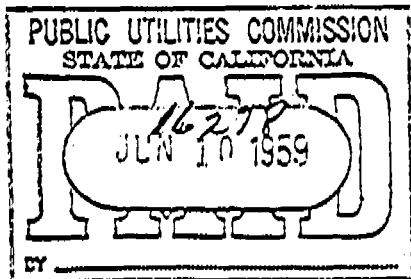
1. Carpenteria Water Company, on and after the effective date hereof and on or before December 31, 1960, may enter into a loan agreement with Pacific Mutual Life Insurance Company, may execute a mortgage, and may issue notes in the aggregate principal amount of not to exceed \$150,000, subject to the terms and conditions of said loan agreement and mortgage.

2. Carpenteria Water Company shall use the proceeds to be received through the issue of said notes for the purposes set forth in this application.

3. Carpenteria 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 will become effective when Carpinteria Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$100.

Dated at San Francisco, California, this 8th day of June, 1959.



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

Commissioner Everett C. McKeago, being necessarily absent, did not participate in the disposition of this proceeding.