

ORIGINAL

Decision No. 59220

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHWEST WATER COMPANY, a California
corporation, for permission to borrow
money and in connection therewith to
issue and sell its First Mortgage Series
"C" 5-5/8% Bonds under a Second Supplemental
Trust Indenture, to be dated February 1,
1959.

} Application
No. 41238

Arthur D. Guy for applicant.
J. Calvin Simpson for the Commission staff.

O P I N I O N

Southwest Water Company, by this application, requests authority to issue and sell its Series "C" First Mortgage 5-5/8% Bonds in an aggregate amount not to exceed \$500,000, \$250,000 of this amount to be sold now, and the balance to be sold on or before March 31, 1960.

A public hearing was held before Examiner Grant E. Syphers in Los Angeles on August 13, 1959, at which time evidence was adduced and the matter submitted. It now is ready for decision.

A representative of an investment brokerage firm testified that the 5-5/8% interest rate, in connection with the proposed sale of

bonds, was the best that could be obtained. Discussions were had with several eastern lending agencies, but the Lincoln National Life Insurance Company, at Fort Wayne, Indiana, made the best offer. That company insisted upon a provision to the effect that the bonds cannot be refunded for a period of ten years at a rate of interest lower than 5-5/8%.

The president of applicant company testified that there are five principal purposes for which cash is now required by the company: (1) to meet payments on refund contracts; (2) to supply money for storage, transmission and production facilities; (3) to supply money for installation of meters and services; (4) to provide for individual extensions of mains and facilities; and (5) to supply money for operating capital and the maintenance of inventories. He stated that it was the policy of the company to maintain in its financing a ratio of approximately 60% in bonds and 40% in stock, with the stock being divided about one-half between common and preferred. If the present application is granted, the following ratios will obtain:

Upon Issuance of \$250,000 of Bonds

<u>Type of Security</u>	<u>Amount</u>	<u>Percentage of Total</u>
Common Stock	\$ 591,563	27
Preferred Stock	495,160	23
Bonds	1,094,750	50
Total Investment	\$2,181,473	

Upon Issuance of \$500,000 of Bonds

Common Stock	\$ 591,563	25
Preferred Stock	495,160	20
Bonds	1,344,750	55
Total Investment	\$2,431,473	

It should be noted that the above ratios do not consider advances for construction since they are not included in applicant's rate base. The record discloses that as of June 30, 1959, advances for construction amounted to \$712,974.

A consulting engineer and officer of applicant company testified that the applicant water company consists of three districts: the La Mirada District with over 4,000 customers, the Etiwanda District with less than 300 customers, and the La Sierra District with about 4,000 customers. In the La Mirada District there is a master plan which includes the securing of water from the Metropolitan Water District and the development of additional storage. This district proposes to spend at least \$100,000 in 1960. In the La Sierra District there are many small mains which will be the subject of an engineering study and which will require the expenditures of additional funds during 1960. It is estimated that during this year the company will need at least \$250,000 for its capital budget.

It is apparent from this record that the applicant cannot go forward with the expansion of its facilities and continue to meet its obligations unless it obtains additional funds from external sources. As to the bonds, the interest rate of 5-5/8% appears to be the best obtainable by this applicant at this time. Therefore, we will approve the application as requested.

The authorization herein granted is for the issue of securities and is not to be construed as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

O R D E R

Application as above entitled having been filed, a public hearing having been held thereon, the Commission being fully advised in the premises and being of the opinion that the application should be granted subject to the conditions hereinafter set forth, and being of the further opinion that the money, property, or labor to be procured or paid for by the proceeds realized from the sale of the bonds herein authorized is reasonably required for the purposes specified herein, and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS ORDERED:

1. 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 and sell, pursuant thereto, its First Mortgage Series "C" 5-5/8% Bonds in an aggregate amount not to exceed \$500,000, at their principal amount plus accrued interest, for the purposes outlined in the preceding opinion.

2. That the period of time within which applicant may sell and issue its First Mortgage Series "C" 5-5/8% Bonds, as hereinabove authorized, shall extend to and include March 31, 1960.

3. That the authorization herein granted to issue bonds will become effective when Southwest Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$500.

Dated at Los Angeles, California, this 3rd
day of November, 1959

Carroll R. R. R.
President

(J. L. L. L.)

W. L. L. L.

E. L. L. L.

Theodore L. L. L.
Commissioners

