

ORIGINALDecision No. 59534

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHERN CALIFORNIA WATER COMPANY
for an order authorizing it to
issue its bonds and to mortgage
its properties.

Application No. 41779

O P I N I O N

Southern California Water Company, applicant herein, is a California corporation engaged in operating public utility water systems in the counties of Los Angeles, Orange, San Bernardino, Imperial, Ventura and Sacramento, and a public utility electric system in Bear Valley, San Bernardino County. In this application it reports that it intends to create a new series of bonds to be designated as First Mortgage Bonds, 5.40% Series due 1990, and it seeks authorization to execute a supplemental indenture defining the terms of said bonds and to issue and sell \$3,000,000 thereof, at their principal amount plus accrued interest, to the following:

<u>Name</u>	<u>Amount</u>
The First National Bank of Chicago (Trustee under two trusts)	\$ 750,000
The Franklin Life Insurance Company	400,000
Modern Woodmen of America	350,000
Royal Neighbors of America	350,000
Aid Association for Lutherans	350,000
American United Life Insurance Company	250,000
United Benefit Life Insurance Company	250,000
Guarantee Mutual Life Co.	200,000
Kansas City Life Insurance Company	100,000
Total	<u>\$3,000,000</u>

Applicant proposes to apply the proceeds to be received by it from the sale of the new bonds, except accrued interest, to pay and discharge outstanding promissory notes, which amounted to \$2,000,000 as of November 30, 1959, and to use any proceeds not needed to liquidate such notes to meet capital costs. In Exhibit C, applicant reports budgeted utility plant expenditures for the year 1959 at \$2,525,100 and for the year 1960 at \$2,334,000.

From a review of applicant's financial statements, it appears that its capital ratios as of November 30, 1959, and as adjusted to give effect to the proposed financing, are as follows:

	<u>Nov. 30, 1959</u>	<u>As Adjusted</u>
First mortgage bonds	46.61%	52.27%
Convertible subordinated notes and debentures	10.67	9.54
Preferred stock	7.56	6.76
Common stock and surplus	<u>35.16</u>	<u>31.43</u>
Total	<u>100.00%</u>	<u>100.00%</u>

The bonds which applicant proposes to issue are redeemable at the election of applicant during the 12 months ending December 31, 1961 at 105.50% of the principal amount and at annually decreasing premiums thereafter, subject to the limitation that during the first five years of their term, none of the new bonds may be redeemed if such redemption is for the purpose or is in anticipation of refunding any of the new bonds through the use, directly or indirectly, of funds borrowed by applicant at an interest cost to it lower than the interest rate on the new bonds.

Applicant advises that during the course of its negotiations for the sale of the bonds none of the thirteen institutional holders of its presently outstanding funded debt were willing to purchase any of the new bonds on a 5.40% yield basis without the five-year limitation on redemption, that only three of such institutional holders were willing to purchase any of the new bonds on a yield basis less than 5.50% even with the five-year limitation on redemption, that the other ten of said thirteen institutional holders of

applicant's presently outstanding bonds insisted on a yield basis for the new bonds ranging from 5.50% to 5.75%, that several of these ten were unwilling to buy any of the bonds at any price without a ten-year limitation on redemption, and that only one of these thirteen institutional holders was willing to buy any of the new bonds without the redemption limitation for at least five years and then only on a 5.75% yield basis.

We have considered this matter and are of the opinion, and so find, (1) that a public hearing is not necessary; (2) that applicant will have need for additional funds from external sources to enable it to meet its obligations and to proceed with its construction program; (3) that the inclusion of a five-year restrictive redemption provision will enable applicant to secure the funds at a lower interest cost which will inure to the benefit of its consumers; and (4) that an order granting the application is warranted.

The approval indicated is for the issue and sale of securities only and 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 the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue and sale of the bonds herein authorized is reasonably required by applicant 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. Southern California Water Company, on or after the effective date hereof and on or before June 30, 1960, may execute a supplemental indenture in, or substantially in, the same form as the indenture filed in this proceeding as Exhibit B.

2. Southern California Water Company, on or after the effective date hereof and on or before June 30, 1960, may issue and sell not to exceed \$3,000,000 in principal amount of its First Mortgage Bonds, 5.40% Series due 1990, at not less than their principal amount plus accrued interest.

3. Southern California Water Company shall use the proceeds from the sale of its bonds, exclusive of accrued interest, for (1) payment and discharge of the principal amount of its promissory notes given by it for bank loans, and (2) to the extent not required for the foregoing purpose, for any one or more of the following purposes, namely, acquisition of property, construction, completion, extension or improvement of its facilities, improvement or maintenance of its service, payment and discharge of its obligations representing expenses of issue and sale of the bonds herein authorized, and reimbursement of moneys actually expended from income or other money in its treasury, not obtained from sale of securities, for any of the foregoing purposes except maintenance of service and replacements. The accrued interest to be received may be used for any of said purposes or for general corporate purposes.

4. Southern California Water Company 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.

5. The authority herein granted will become effective when Southern California Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,000.

Dated at San Francisco, California, this 26th day of January, 1960.

Ernest R. Borge
President
W. E. Blitchell
C. L. Fox
Theodore J. Jenner
Commissioners

