A.42770 MON

ORIGINAL

Decision No. 61004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company for an order authorizing it to issue and sell $500,000 principal amount of its First Mortgage 5½% Improvement Fund Bonds, Series H, Due October 1, 1990, and to execute to Bank of America National Trust and Savings Association, as Trustee, an indenture supplemental to the existing Indenture, as amended, securing the Company's bonded indebtedness.	Application No. 42770

OPINION

On October 19, 1960, San Gabriel Valley Water Company filed the above-entitled application for authorization to execute a supplemental trust indenture and to issue and sell $500,000 of bonds.

The bonds will be designated as First Mortgage 5½% Improvement Fund Bonds, Series H, Due October 1, 1990. They will be redeemable during the period from October 1, 1960 to October 1, 1961 at 105.50% of the principal amount, plus accrued interest, and thereafter at annually reducing premiums, except that such bonds, or any part thereof, may not be redeemed at the election of the company at any time prior to October 1, 1968, with borrowed funds bearing a lower interest rate. The company reports that it has made, or is making, arrangements to sell the $500,000 of bonds, on or before November 30, 1960, to Occidental Life Insurance Company of California, for cash, at the principal amount thereof, plus accrued interest.

Applicant proposes to use the net proceeds to be received from the sale of its bonds, after paying expenses incident to the issue in the estimated amount of $3,855, for the purpose of retiring any promissory notes that may be outstanding, of reimbursing its treasury, and of financing the cost of capital additions. Applicant asserts that the growth in its service areas has continued over the recent years, and although not at so rapid a pace as during the years from 1950 through 1956, has nevertheless required it to pursue an extensive construction program. The net additions to utility plant accounts from January 1, 1957 to August 31, 1960 amounted to $1,950,376 which has been financed with proceeds from the sale of bonds, advances for construction, short-term bank loans and reinvestment of earnings. Applicant's financial position as of August 31, 1960, is indicated in the following tabulation:

Assets		
Utility plant, less reserve for depr.		$8,064,107
Construction work in progress		238,729
Other physical property		40,481
Miscellaneous investments		3,828
Current assets -		
Cash	$101,220	
Accounts receivable	156,277	
Materials and supplies	89,210	
Prepaid expenses	25,001	
Total current assets		371,708
Deferred charges		27,337
Total		$8,746,190
Liabilities and Capital		
First mortgage bonds		$4,500,000
Current liabilities -		
Accounts payable	$117,660	
Notes payable	100,000	
Accrued liabilities	195,541	
Consumers' deposits	12,151	
Advances - current portion	97,010	
Total current liabilities		522,362
Advances for construction		1,312,332
Contributions in aid of construction		382,625
Deferred credits		25,414
Common stock and surplus		2,003,457
Total		$8,746,190

The outstanding common stock consists of 133,000 shares of the par value of $10. During the last five years, according to the financial statement attached to the application, dividends were paid at the rate of 60 cents in 1959; 30 cents in 1958; 38 cents in 1957; with none in 1955 and 1956.

Applicant's capital ratios as of August 31, 1960, and as adjusted to give effect to the proposed financing, are as follows:

	Aug. 31, 1960	Pro Forma
First mortgage bonds	57%	60%
Advances for construction	17	16
Common stock equity capital	26	24
Total	100%	100%

We note that applicant's debt ratio, including the advances for construction, will reach 76% upon completion of the present issue and we will expect the company, in its next financing proceeding, to undertake to obtain additional equity capital. However, at this time it clearly appears that applicant will have need for funds to meet its outstanding short-term borrowings and to improve its cash position. Although its debt ratio appears to be somewhat high, an analysis of its results of operations indicates that its earnings are of such volume as would enable it to meet its obligations on its outstanding bonds and on those proposed to be issued. Its operating revenues increased from $2,023,196 during the 12 months ended June 30, 1959 to $2,242,542 during the 12 months ended June 30, 1960, and its net income, before bond interest, increased during the same period from $577,167 to $682,519. It appears that during the fiscal period ended June 30, 1960, after making allowances of $216,747 for depreciation, the company reported net income of approximately 3.8 times its interest charges before taxes on income and of approximately 2.3 times after payment of such taxes.

Upon a full consideration of this application and of the company's financial position, we find and conclude (1) that the issue of the bonds is for proper purposes; (2) that applicant will be required to pay a lower interest rate than it would if the restricted redemption feature were to be eliminated and the ensuing lower financial requirements should inure to the benefit of the consumer; and (3) 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. On the basis of these findings, we will enter our order granting the application.

The authorization herein granted is for the sale of bonds 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 a public hearing is not necessary, therefore, IT IS HEREBY ORDERED as follows:

1. San Gabriel Valley Water Company, on or after the effective date hereof and on or before January 31, 1961, may execute an Eleventh Supplemental Trust Indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit D and may issue and sell not to exceed $500,000 principal amount of its First Mortgage 5½% Improvement Fund Bonds, Series H, Due October 1, 1990, at not less than the principal amount thereof, plus accrued interest.

2. San Gabriel Valley Water Company shall use the proceeds from the sale of said bonds for the purposes set forth in this application. The accrued interest to be received may be used for said purposes or for general corporate purposes.

3. San Gabriel Valley 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 San Gabriel Valley Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $500.

Dated at San Francisco, California, this 7th day of November, 1960.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
19874
NOV 7 - 1960
BY

President

Commissioners