

**ORIGINAL**

Decision No. 62854

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BANNING WATER COMPANY,  
a California corporation, for permit  
authorizing it to issue and sell  
Series "B" First Mortgage and  
Collateral Bonds secured by a  
mortgage on its properties.

Application No. 43882  
Filed October 26, 1961

O P I N I O N

This is an application for an order of the Commission authorizing Banning Water Company to execute a supplemental trust indenture and to issue and sell \$225,000 of bonds.

The bonds will constitute a new series of applicant's First Mortgage and Collateral Bonds. They will be designated Series B, will bear interest at the rate of 6 per cent per annum, will mature September 1, 1981, and will be subject to redemption up to September 1, 1965 at a premium of 6 per cent, and thereafter at reducing premiums, except that they may not be redeemed prior to September 1, 1971 (other than through the Series B sinking fund) directly or indirectly, as a part of, or in anticipation of, a refunding operation, whereby the company borrows money or sells debt securities at an interest cost of less than 6 per cent per annum, and except that when the bonds are redeemed through the operation of the sinking fund provided in the indenture, the bonds shall be redeemable upon payment of 100 per cent of the principal amount plus, in each case, accrued

interest to the date fixed for redemption. The company will pay into a sinking fund on or prior to August 26, 1962, and on or prior to each August 26th thereafter, to and including August 26, 1980, an amount in cash sufficient to redeem \$9,000 in principal amount of bonds of Series B.

The purpose of the proposed bond issue is to provide applicant with funds for capital improvements and additions including the installation of a two million gallon reservoir, the construction of a separate area for its billing department operations, the installation of mobile radio communications equipment and a fixed station unit, the relocation of a two hundred thousand gallon tank, the installation of nine thousand feet of mains and miscellaneous equipment. The company's operations recently were reviewed by the Commission and in Decision No. 62055, dated May 31, 1961, the Commission directed the company to proceed with certain additions and improvements which are included in the program submitted in the present application.

A review of the company's financial statement shows, among other things, that as of September 30, 1961, it had current assets of \$93,422, as compared with current liabilities of \$46,701; that its net investment in utility plant aggregated \$1,270,559 against which there was outstanding only \$369,000 of long-term debt; and for the first nine months of 1961, the net operating profits before income taxes were \$79,137 and fixed

charges were \$16,524. The Commission in said Decision No. 62055 approved rates designed to produce a return of 6.5 per cent on a rate base of \$1,290,000 for the test year 1961.

We have considered this application and are of the opinion that the company has need for funds from external sources to enable it to proceed with the installation of the required additions and improvements and that the assets and earnings should be ample to support and service the proposed bond issue. We find and conclude, however, that the ten-year restriction on redemption of the bonds is too long and is unreasonable. We will not approve such a provision.

We are aware of prevailing utility financing practices and requirements and, from time to time, upon good cause being shown, have authorized the issue of bonds carrying a five-year restricted redemption provision. We find and conclude that a similar provision in the terms of the bonds in this particular proceeding now before us would not be unreasonable; that, with such a provision, savings in interest costs should be realized, which savings should inure to the benefit of the consumers; and that an order should be entered authorizing the issue and sale of the bonds upon the condition that the restricted redemption provision be modified as indicated herein.

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

Banning Water Company having applied to the Commission for authorization to execute a supplemental trust indenture and to issue and sell bonds, and the Commission being of the opinion that a public hearing is not necessary; that the application should be granted, subject to the condition set forth herein; that the money, property or labor to be procured or paid for through the issue 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; therefore,

IT IS ORDERED that -

1. Banning Water Company, on or after the effective date hereof and on or before March 31, 1962, may (a) execute a supplemental trust indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit A, and (b) **issue and sell** not to exceed \$225,000 of First Mortgage and Collateral Bonds, 6%, Series B, due 1981, at not less than their face value plus accrued interest, for the purposes set forth in this application, provided, however, that the form of

said supplemental trust indenture and bond be modified so as to provide for a five-year restricted redemption provision instead of a ten-year provision.

2. Banning Water Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, and shall file two copies of its supplemental trust indenture, as executed, within 30 days after the date so executed.

3. The authority herein granted shall become effective when Banning Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$225.

Dated at San Francisco, California, this 29th day of November, 1961.

[Signature]  
President

[Signature]

[Signature]

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Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

