

**ORIGINAL**

Decision No. 63877

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 6% Debentures, due June 1, 1977, under an Indenture dated as of June 1, 1962.

Application No. 44435  
Filed May 11, 1962

O P I N I O N

Southwest Water Company, by this application, seeks authority to execute and deliver a purchase agreement and an indenture dated as of June 1, 1962, and to issue and sell its 6% debentures in an aggregate amount of not to exceed \$500,000.

The company proposes to sell the debentures on or before December 31, 1962, at their face value, plus accrued interest, to The Lincoln National Life Insurance Company, Pacific Mutual Life Insurance Company, Bankers Life Insurance Company of Nebraska and Nebraska National Life Insurance Company. The debentures will constitute a new issue. They will bear interest at the rate of 6 percent per annum and will be due June 1, 1977, and will be redeemable at 105 percent of their face value, plus accrued interest, on or prior to June 1, 1967, and thereafter at annually reducing premiums, provided, however, that the company may not redeem any of

said debentures prior to June 1, 1967, if the funds to be used for that purpose shall have been obtained directly, or indirectly, from the issuance and sale of one or more promissory notes, debentures, bonds, or other debt securities or obligations bearing an interest cost of less than 6 percent per annum, or if the company contemplates replacing the funds used for that purpose by other borrowed funds bearing an interest rate or having an interest cost of less than 6 percent per annum.

The purpose of the proposed financing is to provide applicant with funds to meet, in part, its 1962 capital requirements. In Exhibit C, the company reports, among other things, estimated expenditures during the year as follows:

Capital improvements budget	\$ 771,500
Refund of advances	60,000
Bond retirement	22,000
Notes payable	55,000
Tracts and main extensions	470,000
Working capital	<u>18,500</u>
Total	<u>\$1,397,000</u>

The exhibit shows that the company contemplates financing its expenditures not only with proceeds from its debentures but also with proceeds from bonds, bank loans, and shares of preferred and common stock and with internally generated funds and advances and donations.

According to applicant's financial statement, filed as Exhibit B, its working capital has been depleted and its current assets, as of March 31, 1962, aggregated \$163,408 as compared with current liabilities of \$324,564. The company's capital ratios as of the end of March and as adjusted to give effect to the proposed financing, excluding from capital surplus appraisal values for water rights, are as follows:

	<u>March 31, 1962</u>	<u>Pro Forma</u>
Long-term debt	53%	59%
Preferred stock	24	21
Common stock equity	<u>23</u>	<u>20</u>
Total	<u>100%</u>	<u>100%</u>

The outstanding common stock consists of 80,758 shares of the par value of \$10 each and of the aggregate par value of \$807,580. During the last five years, according to the exhibit, the company has paid but two cash dividends amounting to \$12,486 in 1960 and to \$15,185 in 1961.

From time to time, the Commission has reviewed applicant's affairs and presently has under submission Application No. 43589 involving its rates for service. One of the matters at issue in that application is the proposed adjustment to rate base for transactions relating to companies which may be associated with applicant.

Application No. 43589 is not ready for decision. At this time, however, it clearly appears that applicant has need for funds to improve its cash position and to enable it to go forward with its capital improvements and we will enter an order authorizing the debenture issue with appropriate reservations deemed necessary to protect the public interest.

O R D E R

The Commission has considered this matter and has determined that a public hearing is not necessary and finds and concludes that the application should be granted only under the terms and conditions set forth herein; that applicant will be required to pay a lower interest rate on said debentures than it would if the restricted redemption feature were to be deleted and that the ensuing lower financial requirements should inure to the benefit of the consumers; that the money, property or labor to be procured or paid for by the issue of the debentures 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. Southwest Water Company, on or after the effective date hereof and on or before December 31, 1962, may execute a purchase agreement and an indenture in the same form, or substantially in the same form, as the instruments filed in this proceeding as Exhibit D and Exhibit E, respectively, and may issue and sell, at not less than face value, plus accrued interest, not to exceed \$500,000 in principal amount of its 6% debentures for the purposes set forth in this application, provided, however, that -

- a. The authorization herein granted is not to be construed as an approval of all the elements comprising applicant's reported and estimated construction costs nor as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.
- b. The Commission reserves the right to make such adjustments in the utility plant and reserve accounts, for rate purposes, as it may deem reasonable and necessary to protect the public interest.
- c. No part of the proceeds from the issue and sale of said debentures may be used to pay for main extensions which could be financed under the utility's filed main extension rule.

2. Southwest 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.

3. The authority herein granted shall 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 San Francisco, California,  
this 2nd day of JULY, 1962.

[Signature] President

[Signature]

[Signature]

Commissioners

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

