

ORIGINAL

Decision No. 68514

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 20,000)
shares of a new series of its)
Preferred Stock; to issue and)
sell not to exceed 13,800 shares)
of its Common Stock; to issue)
and sell \$1,500,000 principal)
amount of its First Mortgage 5%)
Improvement Fund Bonds, Series I,)
Due October 1, 1994, and to)
execute to Bank of America)
National Trust and Savings)
Association, as Trustee, an)
Indenture supplemental to its)
existing Indenture, as amended,)
securing the Company's bonded)
indebtedness.)

Application No. 47224
Filed December 31, 1964
and Amendment
Filed January 14, 1965

O P I N I O N

San Gabriel Valley Water Company has filed this application requesting authorization from the Commission (1) to issue and sell \$1,500,000 principal amount of its First Mortgage 5% Improvement Fund Bonds, Series I, Due October 1, 1994; (2) to execute a Thirteenth Supplemental Trust Indenture; (3) to issue and sell, at par, 20,000 shares of its \$25 par value preferred stock 5-1/8% Series of 1964 having an aggregate par value of \$500,000; and (4) to issue and sell, at \$20 per share, 13,800 shares of its \$10 par value common stock for \$276,000 cash.

Applicant is a California corporation engaged in business as a public utility providing water service to consumers located in the Counties of Los Angeles and San Bernardino. It reports operating revenues of \$2,795,132 and net income of \$300,980 for the eleven months ended November 30, 1964, and 52,379 active service connections at the end of the period.

The application shows that the company presently has outstanding 4-3/4% short-term bank loans aggregating \$850,000, the proceeds of which were expended for plant additions, and that it has issued a 6% demand note for \$135,132.30 in connection with the purchase of Vallecito Water Company stock pursuant to authority previously granted by the Commission. The balance sheet attached to the application as Exhibit A indicates that, as of November 30, 1964, advances for construction and contributions in aid of construction were \$1,590,782 and \$682,778, respectively. Applicant's capitalization on the balance sheet date, excluding said construction advances and contributions, as recorded and as adjusted to give effect to the financing proposed in this proceeding, is as follows:

	<u>November 30, 1964</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Short-term notes	\$ 885,132	9%	\$ -	-%
Long-term debt	5,000,000	52	6,500,000	59
Preferred stock	950,000	10	1,450,000	13
Common stock equity	<u>2,749,900</u>	<u>29</u>	<u>3,025,900</u>	<u>28</u>
Total	<u>\$9,585,032</u>	<u>100%</u>	<u>\$10,975,900</u>	<u>100%</u>

The company reports that during the eleven-month period ended November 30, 1964, it acquired and constructed approximately \$1,144,000 in gross plant additions which were financed principally with short-term borrowings, internally generated funds, advances for construction and contributions. Applicant's projected capital expenditures of \$1,887,000 for the year 1965 are set forth in Exhibit D, annexed to the application, and are generally summarized as follows:

Main office land and buildings	\$ 227,500
Water treatment plant, including land	278,600
Transmission and distribution mains	1,171,900
Services and meters	132,000
Other	<u>77,000</u>
Total	<u>\$1,887,000</u>

The company alleges that the existing and foreseeable demands upon its water system require continuance of an active program of construction and financing.

In this proceeding, applicant requests authority to issue and sell \$1,500,000 principal amount of its First Mortgage 5% Improvement Fund Bonds, Series I, Due October 1, 1994. Said bonds will be dated as of October 1, 1964 and will be subject to redemption at election of the company upon payment of an initial regular redemption price of 105%, plus accrued interest, if redeemed or prior to October 1, 1965, and thereafter at annually reducing premiums. However, the bonds may not be so redeemed at any time prior to October 1, 1972 with funds borrowed at a net interest cost of less than 5% per annum. Such provision restricts redemption for the same number of years as a similar restriction applicable to the company's Series H bonds authorized in 1960 and bearing a 5-1/2% per annum interest rate.

Repayment of the bonds will be secured by an existing indenture as heretofore supplemented and as further supplemented by a proposed Thirteenth Supplemental Trust Indenture. Subject to receiving authorization from the Commission, the company will sell the bonds to The Northwestern Mutual Life Insurance Company, for cash, at their principal amount, plus accrued interest, pursuant to the terms of a Purchase Agreement.

Applicant also seeks permission to issue and sell, at par, 20,000 shares of its new \$25 par value preferred stock to be designated 5-1/8% Series of 1964. Said shares will be sold to The Northwestern Mutual Life Insurance Company for \$500,000 cash under the terms of a Purchase Agreement.

The company proposes further to issue and sell not to exceed 13,800 shares of its \$10 par value common stock for an aggregate cash consideration of \$276,000 based on an offering price of \$20 per share. The shares will be offered to present shareholders and to a limited number of others.

Applicant asserts that the financing proposed in this proceeding is necessary and that the proceeds to be derived therefrom, excluding accrued interest, will be applied toward (a) payment of expenses relating to the issues, (b) repayment of short-term bank loans, (c) repayment of the 6% demand note outstanding, (d) property acquisitions and the cost of plant additions, (e) payments becoming due on outstanding refund contracts and (f) reimbursement of the treasury

for money expended for plant additions. The proceeds to be derived from accrued interest will be used for ordinary corporate purposes according to the application.

The Commission has considered this matter and finds that: (1) the proposed bond and stock issues are for proper purposes; (2) applicant will be required to pay a lower interest rate than it would in the absence of a restricted bond redemption provision; (3) the money, property or labor to be procured or paid for by the issue of the bonds and stock herein authorized is reasonably required for the purposes specified herein; and (4) such purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted. A public hearing is not necessary.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company may execute and deliver a Thirteenth Supplemental Trust Indenture in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit C Revised.

2. San Gabriel Valley Water Company may issue and sell not to exceed \$1,500,000 of its First Mortgage 5% Improvement Fund Bonds, Series I, Due October 1, 1994, at not less than the principal amount, plus accrued interest, in accordance with a Purchase Agreement in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit B.

3. San Gabriel Valley Water Company may issue and sell, at par, not to exceed 20,000 shares of its \$25 par value preferred stock 5-1/8% Series of 1964 having an aggregate par value of \$500,000, in accordance with a Purchase Agreement in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit F.

4. San Gabriel Valley Water Company, on or before December 31, 1965, may issue and sell not to exceed 13,800 shares of its \$10 par value common stock at a price of \$20 per share for a total cash consideration of \$276,000.

5. San Gabriel Valley Water Company shall use the proceeds from the sale of such bonds and stock for the purposes set forth in this application as amended.

6. Pending the application of stock and bond proceeds for the purposes herein authorized, San Gabriel Valley Water Company may invest temporarily any portion or portions thereof in short-term obligations of the United States of America.

7. San Gabriel Valley Water Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

8. This order shall 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 \$1,250.

Dated at San Francisco, California,
this 19th day of January, 1965.

Frederick B. Holdhoff
President
John E. Mitchell
William W. Stewart
George A. Trotter

Commissioners

