

ORIGINAL

Decision No. 68945

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of ROSSMOOR WATER COMPANY, a)
corporation, for authority to)
issue its First Mortgage Series)
A 6% Bonds in the aggregate)
amount of \$1,700,000, and to)
execute a Purchase Agreement)
and Trust Indenture, and for)
authority to issue Stock.)
(AMENDED TITLE))

Application No. 46944
Filed August 28, 1964
and
Amended Application;
Filed April 1, 1965.

O P I N I O N

By the amended application filed in this proceeding
Rossmoor Water Company requests authorization from the Commission
(1) to issue \$1,700,000 principal amount of its bonds, (2) to
execute and deliver a Trust Indenture and a Purchase Agreement,
and (3) to issue and sell \$1,100,000 aggregate par value of its
common stock.

Applicant is a California corporation engaged in
business as a public utility distributing water to consumers
in certain unincorporated territory in Orange County located
easterly of Laguna Canyon Road and along the northerly and
southerly sides of the Santa Ana Freeway near the intersection
with Niguel Road and El Toro Road. Information on file with
this Commission indicates that construction of service facili-
ties began in 1963 and that utility operations under tariff
schedules commenced January 1, 1964.

According to its 1964 annual report, the company's gross operating revenues and net income for the calendar year were \$153,976 and \$32,302, respectively, and the number of active service connections at the end of the period totaled 650, exclusive of fire connections and hydrants. The balance sheet shown in said annual report discloses that as of December 31, 1964, total assets of \$1,795,441 were offset primarily by a \$500,000 short-term bank loan, construction advances amounting to \$205,403, and common stock equity totaling \$832,302.

Exhibit E attached to the amended application includes projections of applicant's construction requirements and operating results as estimated for the period October 1, 1964 to December 31, 1967, inclusive. Schedule 4 of said Exhibit E shows that during the thirty-six month period beginning January 1, 1965, the utility's anticipated cash disbursements for plant will amount to \$3,831,530. According to the amended application, the company's estimated investment in gross plant as of December 31, 1967, will aggregate over \$5,000,000, of which it alleges approximately \$1,526,000 will be derived from the execution of main extension contracts.

The corporation's capitalization ratios based on the proposed financing contained in the amended application are set forth in Schedule 1 of said Exhibit E and are summarized as follows:

Pro Forma - December 31

	<u>1965</u>	<u>1966</u>	<u>1967</u>
Borrowings	46.2%	40.3%	33.7%
Advances for Construction	13.8	19.8	25.8
Common stock equity	<u>40.0</u>	<u>39.9</u>	<u>40.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Applicant requests authority to issue bonds in the principal amount of \$1,700,000 to be designated First Mortgage Series A 5% Bonds, and to mature October 1, 1984, under and pursuant to the terms of a Trust Indenture. The bonds will be subject to optional redemption at a price of 106%, plus accrued interest, if redeemed on or prior to October 1, 1966, and thereafter at annually reducing premiums; however, said bonds will not be redeemable prior to October 1, 1969 from the proceeds of other borrowings at an interest cost of less than 6% per annum.

Upon receiving authorization from the Commission, the utility contemplates selling the bonds to Pacific Mutual Life Insurance Company at their principal amount, plus accrued interest, under the terms of a Purchase Agreement, a copy of which is annexed to the amended application as Exhibit A. The agreement designates as guarantor the Rossmoor Corporation, the sole stockholder of applicant, and it provides for the issue and sale of said bonds on or before December 31, 1966. A portion of the proceeds will be applied toward repayment of short-term bank indebtedness incurred for acquiring permanent additions, and the balance will be used for paying expenses.

in connection with the sale of said bonds and for paying for, or reimbursing the company's treasury for, the cost of permanent additions.

The company also seeks permission in this proceeding to issue and sell, at their par value of \$100 each, 11,000 additional shares of common stock having an aggregate par value of \$1,100,000. Applicant reports that its parent company, Rossmoor Corporation, has stated its willingness to purchase said stock within the period ending December 31, 1967, in amounts necessary to provide additional funds for construction and expansion. According to the amended application, common stock equity will be maintained at a ratio of approximately 40 percent of total capital.

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 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 amended application should be granted. A public hearing is not necessary.

In issuing our order herein, we place applicant and its shareholder 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 the 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. Rossmoor Water Company may execute and deliver a Purchase Agreement with Pacific Mutual Life Insurance Company, and a Trust Indenture, which documents shall be in the same form, or in substantially the same form, as those attached to the amended application as Exhibit A and Exhibit B, respectively.

2. Rossmoor Water Company, on or after the effective date hereof and on or before December 31, 1966, may issue and sell not to exceed \$1,700,000 of its First Mortgage Series A 6% Bonds, at not less than their principal amount plus accrued interest, and shall use the proceeds, other than accrued interest, for the purposes specified in the amended application. The accrued interest may be used for said purposes or for general corporate purposes.

3. Rossmoor Water Company, on or after the effective date hereof and on or before December 31, 1967, may issue and sell, at par, for cash, not to exceed 11,000 shares of its common stock having an aggregate par value of \$1,100,000, and shall expend the proceeds for the purposes specified in the amended application.

4. Rossmoor 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.

5. This order shall become effective when Rossmoor Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,350.

Dated at San Francisco, California, this 27th day of APRIL, 1965.

Frederick B. Hallock
President

[Signature]

George T. Grover

Attorney

[Signature]
Commissioners

