

ORIGINAL

Decision No. 74225

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION)

of)

PALOS VERDES WATER COMPANY,)
a California corporation,)

for permission to sell and issue)
bonds for cash in the amount)
of \$1,500,000.)

) Application No. 50195
) Filed April 26, 1968
) and Amendment
) Filed May 17, 1968
)

O P I N I O N

Palos Verdes Water Company requests authorization from the Commission to execute a Purchase Agreement and a Fifth Supplemental Indenture, and to issue and sell \$1,500,000 aggregate principal amount of its bonds.

Applicant is a California corporation engaged in the business of selling and distributing water for domestic, agricultural, commercial and industrial purposes in the Palos Verdes Hills area of Los Angeles County. The company's 1967 annual report shows gross operating revenues and net income of \$2,202,324 and \$161,563, respectively, and a total of 15,720 active service connections, exclusive of fire connections, at the end of the year.

The corporation's reported net utility plant, after deducting accumulated depreciation, amounted to \$10,917,582 as of December 31, 1967. Applicant's capitalization percentages on said date, excluding \$336,027 of contributions in aid of construction, and as adjusted to give effect to the financing proposed herein, are computed as follows:

	<u>December 31, 1967</u>	<u>Pro Forma</u>
Long-term debt	41%	49%
Advances for construction	30	26
Preferred stock	4	4
Common stock equity	<u>25</u>	<u>21</u>
Total	<u>100%</u>	<u>100%</u>

The proposed new series of bonds will be designated First Mortgage Series D 7% Bonds of 1993, and will be secured by an existing indenture as previously supplemented and as further supplemented by a proposed Fifth Supplemental Indenture. The bonds will be redeemable at the company's option upon payment of an initial redemption price of 107% plus accrued interest, if redeemed on or prior to April 1, 1975, and thereafter at annually reducing premiums. However, redemption may not be made prior to April 1, 1978 through the use of funds borrowed at an effective interest cost of less than 7% per annum.

The application indicates that the bonds will be sold to Pacific Mutual Life Insurance Company at their principal

amount plus accrued interest, and that the proceeds will be applied to (a) retiring bank loans used in connection with paying the costs of capital additions to plant, (b) paying the cost of other capital additions, and (c) paying expenses incurred with respect to the proposed bond issue.

In connection with the ten-year restricted redemption provision, applicant has submitted a letter from Pacific Mutual Life Insurance Company dated February 13, 1968, a copy of which is attached to the amendment to the application as Exhibit E. The letter indicates that (a) such restriction is presently required in all loans made by Pacific Mutual Life Insurance Company, (b) the lender can obtain all the investment opportunities it needs on a ten-year nonrefundability basis, and (c) the interest rate would be higher for a shorter restricted redemption period.

The Commission has considered this matter and finds that: (1) the proposed bond issue is for proper purposes; (2) applicant will be required to pay interest at a lower rate than it would in the absence of the proposed restricted redemption provision; (3) 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; (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; and (5) the proposed Purchase Agreement and Fifth Supplemental Indenture will not be adverse to the public interest. A public hearing is not necessary.

On the basis of the foregoing findings we conclude that the application, as amended, should be granted. The authorization herein granted is for the purpose of this proceeding only and is not to be construed 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. Palos Verdes Water Company may execute and deliver a Purchase Agreement and a Fifth Supplemental Indenture in the same form, or in substantially the same form, as those attached to the application.
2. In accordance with the terms of said Purchase Agreement, Palos Verdes Water Company may issue and sell not exceeding \$1,500,000 aggregate principal amount of its First Mortgage Series D 7% Bonds of 1993, at not less than their principal amount plus accrued interest, and shall use the proceeds, other than accrued interest, for the purposes specified in this proceeding. The accrued interest may be used for said purposes or for general corporate purposes.

3. Palos Verdes 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.

4. This order shall become effective when Palos Verdes Water Company has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$1,250.

Dated at Los Angeles, California,
this 11th day of JUNE, 1968.

[Signature]
President

[Signature]
[Signature]
[Signature]
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

