

ORIGINAL

Decision No. 75948

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION)
of PALOS VERDES WATER COMPANY,)
a California corporation:)

(i) to sell and issue notes)
for cash in the amount of)
\$1,000,000, (ii) to execute)
with Pacific Mutual Life)
Insurance Company a Note)
Agreement and (iii) to amend)
the Purchase Agreement entered)
into with Pacific Mutual Life)
Insurance Company under date of)
April 1, 1968.)

Application No. 51218
Filed July 1, 1969

O P I N I O N

Palos Verdes Water Company requests an order of the Commission authorizing it to execute and deliver a Note Agreement, to issue and sell \$1,000,000 aggregate principal amount of notes pursuant thereto, and to amend a Purchase Agreement pertaining to previously authorized 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. For the year 1968 the company reports operating revenues and net income of \$2,465,288 and \$211,242, respectively.

The utility's reported net utility plant amounted to \$11,878,665 as of May 31, 1969. Its capitalization ratios on said date, excluding \$440,956 of contributions in aid of construction, and as adjusted to give effect to the \$1,000,000 of notes proposed herein and to an additional \$500,000 of previously authorized bonds, are computed as follows:

	<u>May 31, 1969</u>	<u>Pro Forma</u>
Long-term debt	42.5%	49.5%
Advances for construction	30.0	26.3
Preferred stock	3.6	3.2
Common stock equity	<u>23.9</u>	<u>21.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The proposed notes will be in favor of Pacific Mutual Life Insurance Company, and will be designated as 8-1/2% Notes due 1989. They will be nonrefundable for a period of ten years. In this connection a letter dated June 13, 1969 from the lender states the following:

"In our proposed financing with your Company you have enquired concerning the redemption provision of the loan which requires a non-refundable clause for 10 years. The 10-year or longer period has been a requirement in all our loans for a considerable period of time. With the present level of interest rates we do not believe it is advisable to accept a lesser period and we have had no problem in obtaining all the investment opportunities we need on the 10-year basis. We would probably reject a loan opportunity which had a lesser term for the non-refundable provision. We think this is equitable since this is a 25-year loan and we feel it only prudent to insist upon retaining our loan for a reasonable period of years. We therefore, at this time, refuse to consider a loan with a non-refundable period of less than 10 years."

Applicant proposes to expend the \$1,000,000 of note proceeds, together with \$1,000,000 of proceeds from previously authorized Series D bonds, to finance construction expenditures and to reduce short-term construction borrowings. The \$2,000,000 construction program is segregated by year as follows:

1968	\$	560,000
1969		841,700
1970		<u>598,300</u>

Total \$2,000,000

By Decision No. 74225, dated June 11, 1968, in Application No. 50195, the Commission authorized applicant herein to issue and sell not exceeding \$1,500,000 aggregate principal amount of its First Mortgage Series D 7% Bonds of 1993. The company reports that it has issued only \$500,000 of such bonds, and that it cannot issue more at this time because of insufficient bonding capacity. It proposes to amend the related Purchase Agreement in order to reduce by \$500,000 the contemplated amount of such bonds.

After consideration the Commission finds that:

1. The proposed notes are for proper purposes.
2. The proposed agreements will not be adverse to the public interest.
3. Applicant will be required to pay interest at a lower rate than it would in the absence of the proposed nonrefundability provision.

4. The money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. 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, nor as authorization for applicant to deviate from the prescribed water main extension rule.

O R D E R

IT IS ORDERED that:

1. Palos Verdes Water Company may execute and deliver a Note Agreement and an Amendment to Purchase Agreement in the same form, or in substantially the same form, as those attached to the application.

2. Palos Verdes Water Company, for the purposes specified in this proceeding, may issue and sell not exceeding \$1,000,000 aggregate principal amount of its 8-1/2% Notes due 1989, in accordance with the terms of said Note Agreement.

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.

Dated at San Francisco, California,
this 22nd day of JULY, 1969.

William S. Jones, Jr.
President

Augusta

J. P. Morrissey

Fred P. Morrissey
Commissioners

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.

