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ORIGINAL

Decision No. 79522

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHWEST WATER COMPANY, a)
California Corporation, for per-)
mission to issue and sell)
\$1,000,000 of Debentures and)
\$200,000 of Convertible Preferred)
Stock.)

Application No. 52916
(Filed October 7, 1971;
Amended December 13, 1971)

O P I N I O N

Southwest Water Company requests an order of the Commission authorizing it (1) to issue 4,000 shares of its Series C, convertible preferred stock for cash at par value of \$50 per share for an aggregate sum of \$200,000, (2) to issue common stock for converting its Series C preferred stock, and (3) to issue \$1,000,000 in debentures by private placement after supplemental application.

Applicant is a California corporation furnishing general metered water service to approximately 18,400 customers in portions of the counties of Los Angeles, Orange, Riverside and San Bernardino.

The funds secured are to be used for the following purposes:

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Purposes For Which Proceeds From Sale Of
Debentures And Stock Are To Be Used

Estimated For The Remainder Of The Year 1971 And 1972

Source of Funds:

Series C Convertible Preferred Stock	\$ 200,000
Debentures	<u>1,000,000</u>
	<u>\$ 1,200,000</u>

Use of Funds:

1. Notes Payable (1)	\$ 561,000
2. Construct Utility Plant (2)	362,000
3. Increase Working Capital	117,000
4. Payments on Advances for Construction	<u>160,000</u>
	<u>\$ 1,200,000</u>

(1) The funds from these notes were used primarily for the purpose of paying prior refunds due on advances for construction, \$400,000, and the balance for construction of utility plant, or the reimbursement to working cash for the same.

(2) Consists of the following:

1. Completion of items in 1971 capital budget, not financed by advances or contributions	\$ 184,000
2. 1972 capital budget items as follows: Distribution mains for system betterments	62,000
3. Storage facilities	34,000
4. Services and meters for new customers	20,000
5. Unforeseen items and miscellaneous plant	<u>62,000</u>
Total	\$ 362,000

Applicant alleges that its capital structure on a pro forma basis at December 31, 1971, will consist of approximately 42 percent equity and 58 percent debt, exclusive of advances for construction.

Applicant further alleges that it needs the funds for the purpose of meeting its commitments for the year 1971 and to effect permanent additions to its facilities. It alleges that without the funds, it will be unable to better its program of improving its production and distribution system for the benefit of its consumers.

Subject to adjustments, prior to January 1, 1977 each share of the \$50 par value Series C preferred stock would be convertible into five common shares presently having a par value of \$10 each. For the next five years the corresponding conversion rate would be four for one, after which conversion would be at the rate of three and one-third for one to and including December 31, 1986, the latter constituting the final conversion date.

After consideration the Commission finds that:

1. The proposed stock issues are for proper purposes.
2. The money, property or labor to be procured or paid for by the issues of the stock 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.
3. The request for authority to issue debentures should be considered at the hearing now pending for authority to increase applicant's rates.

On the basis of the foregoing, we conclude that the portion of the application to issue stock should be granted, and the portion of the application to issue debentures should be considered at public hearing. A public hearing on the request for authority to issue stock 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 it 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 the company'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. Southwest Water Company, on or after the effective date hereof and on or before December 31, 1972 for the purposes specified in this proceeding, may issue and sell for cash, not exceeding 4,000 shares of its Series C convertible preferred stock at not less than \$50.00 per share, resulting in aggregate proceeds of not to exceed \$200,000.
2. For the purpose of converting its Series C preferred stock, Southwest Water Company may issue such number of shares of its common stock as may be required under the terms and conditions set forth in the Certificate of Determination of Preference of Preferred Stock, a copy of which is attached to the application as Exhibit A.
3. The request for authority to issue \$1,000,000 of debentures is deferred and will be considered with pending rate increase applications.

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4. Southwest Water Company shall file 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.

This order shall become effective when Southwest Water Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$400.00.

Dated at San Francisco, California, this 21st day of DECEMBER, 1971.

[Signature]
Chairman
William Sydnor Jr.
[Signature]
James L. Stinger
[Signature]
Commissioners

