ORIGINAL

Decision 84 02 052 FEB 16 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN GABRIEL VALLEY WATER COMPANY, a California corporation, for authorization to issue and sell not exceeding $4,737,500 aggregate principal amount of its First Mortgage Series M, 12-1/2% Bonds Due February 1, 1999, to execute and deliver an Eighteenth Supplemental Trust Indenture and to purchase and retire all of its outstanding Preferred Stock.	Application 83-12-32 (Filed December 20, 1983)

O P I N I O N

San Gabriel Valley Water Company (San Gabriel) requests authority, under Public Utilities (PU) Code Sections 816 through 818 and 851, for the following:

1. To issue and sell at par value to The Northwestern Mutual Life Insurance Company (Northwestern) not exceeding $4,737,500 aggregate principal amount of its 12-1/2% First Mortgage Bonds, Series M, due February 1, 1999, (New Bonds);

2. To execute and deliver an Eighteenth Supplemental Trust Indenture (New Indenture); and

3. To purchase and retire all of its outstanding Preferred Stock for $737,500, which is the par value of this stock.

Summary of Decision

This decision grants San Gabriel the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of December 21, 1983. No protests have been received.

San Gabriel, a California corporation, operates as a public utility water company under the jurisdiction of this Commission. San Gabriel provides water service to customers in several localities in Los Angeles and San Bernardino counties.

Based on San Gabriel's Statement of Income for the 12 months ended October 31, 1983, as indicated by the company in its letter of January 12, 1984 to the Commission's Revenue Requirements Division, the utility reported operating revenues of $13,261,856 and net income of $1,178,413.

San Gabriel's Condensed Balance Sheet as of October 31, 1983, attached as a part of Exhibit A to the application, is summarized as follows:

Assets	Amount
Net Utility Plant	$36,359,303
Investments	7,969
Current Assets	1,861,571
Deferred Debits	106,818
Total	$38,335,661
Liabilities and Equity	
Common Stock Equity	$10,397,878
Preferred Stock	775,000
Long-Term Debt	10,230,000
Advances for Construction	4,457,508
Contributions in Aid of Construction	6,692,026
Current Liabilities	4,886,618
Other Deferred Credits	896,631
Total	$38,335,661

San Gabriel proposes to issue and sell not exceeding $4,737,500 aggregate principal amount of its New Bonds by means of a negotiated private placement. Since this debt security issue is for less than $5,000,000, competitive bidding will not be required, as promulgated by the Commission's competitive bidding rules. These rules were established by Commission Decision (D.) 38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556 and D.81908, which generally require California public utilities to obtain competitive bids for the purchase of their debt securities.

The New Bonds will be secured by an existing indenture as previously supplemented and amended, and as further supplemented by a proposed New Indenture. The New Bonds will be subject to a ten-year restricted refunding protection provision, and annual redemption payments of $473,750 beginning in 1990. San Gabriel plans to sell the bonds to Northwestern for cash, at the principal amount plus accrued interest, pursuant to the terms of a purchase commitment, attached as Exhibit D to the application.

The New Indenture will contain a provision that the New Bonds may not be redeemed, at the election of San Gabriel, at any time prior to February 1, 1994, for the purpose of refunding them, directly or indirectly with funds borrowed at an interest cost of less than 12-1/2% per annum. All of the six series of bonds presently outstanding have similar call protection provisions varying from eight to ten years. San Gabriel alleges that this type of provision is generally required by bond purchasers and allows the granting of a more favorable interest rate. San Gabriel believes that it is in the best interest of the utility and its ratepayers to agree to such a provision, since alternative financing at the same rate of interest is unobtainable.

San Gabriel has used short-term borrowings to fund a portion of its 1983 adopted capital budget of $1,901,900. Also, the utility paid off its 3-7/8% and 4% First Mortgage Bonds, Series E and F, respectively, in the aggregate principal amount of $1,500,000. These two bond issues had matured, were paid and retired on April 1, 1982 and December 1, 1983, respectively. San Gabriel's short-term borrowings would be repaid following the sale of the New Bonds during the early portion of 1984.

Also, with $737,500 of the proceeds from the sale of the New Bonds, San Gabriel proposes to purchase from Northwestern at $25 par value, all of the utility's outstanding 5-1/2% and 5-1/8% Preferred Stock, Series 1962 and 1964, respectively. San Gabriel states in the application, that the utility proposes to purchase and retire its Preferred Stock in order to obtain an interest rate of 12-1/2% per annum on the New Bonds. Otherwise, 13% per annum would be the lowest interest rate available to San Gabriel, as pertains to the proposed issuance of the New Bonds. Based on supporting documents and work schedules, San Gabriel has demonstrated to the Commission's Revenue Requirements Division that the purchase and retirement of the utility's Preferred Stock would result in savings to its ratepayers of approximately $115,000 over the term of the New Bonds.

The remaining proceeds from the sale of the New Bonds would be used to fund a portion of San Gabriel's 1984 proposed capital budget of approximately $2,600,000.

San Gabriel states that the proposed 12-1/2% interest rate and the other terms of the New Bonds commitment are reasonable for a private placement, in light of market conditions prevailing at the time of negotiation with Northwestern. Further, as pertains to the proposed sale of the New Bonds, and based on supporting documents furnished to the Commission's Revenue Requirements Division, San Gabriel indicates that the utility has shopped among various financial and/or other lending institutions, to obtain the interest rate and other terms most beneficial to San Gabriel and its ratepayers.

San Gabriel's capital ratios as of October 31, 1983 are shown below as recorded and adjusted to give pro forma effect to the proposed transactions that follow:

Component	October 31, 1983	Pro Forma
Long-Term Debt	44.5%	57.3%
Short-Term Debt	6.8	0.0
Total Debt	51.3%	57.3%
Preferred Stock	3.4%	0.0%
Common Stock Equity	45.3	42.7
Total	100.0%	100.0%

1. San Gabriel's proposed sale of its New Bonds in the aggregate principal amount of $4,737,500;

2. The retirement of San Gabriel's First Mortgage Bonds, Series F; and

3. San Gabriel's proposed purchase and retirement of all of its presently outstanding Preferred Stock, Series 1962 and 1964.

The Commission's Revenue Requirements Division has reviewed San Gabriel's construction budget for 1984 and finds that the sale of its New Bonds is necessary to fund the planned construction. The Division is not finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

<u>Findings of Fact</u>

1. San Gabriel, a California corporation, operates as a public water utility under the jurisdiction of this Commission.

2. The proposed issue and sale of the New Bonds would be for proper purposes.

3. San Gabriel has need for external funds for the purposes specified in the application.

4. The sale of the proposed New Bonds should not be required to be through competitive bidding.

5. The interest rate and all other terms of the proposed New Bonds issue are fair and reasonable.

6. The purchase and retirement of all of San Gabriel's outstanding Preferred Stock at $25 par value would enable the utility to issue the New Bonds at an interest rate of 12-1/2% per annum rather than 13%, and would result in savings to San Gabriel's ratepayers of approximately $115,000 over the term of the New Bonds.

7. The proposed New Indenture would not be adverse to the public interest.

8. The proposed security issue is for lawful purposes and the money, property or labor to be obtained by the New Bonds is required for these purposes. Proceeds from the New Bonds may not be charged to operating expenses or income.

9. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b), to enable San Gabriel to issue its New Bonds expeditiously.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company (San Gabriel), on or after the effective date of this order and on or before June 30, 1984, may issue and sell, at par plus accrued interest, its 12-1/2% First Mortgage Bonds, Series M, due February 1, 1999 (New Bonds), in an aggregate principal amount not exceeding $4,737,500.

2. San Gabriel's proposed New Bonds are exempted from the Commission's competitive bidding requirements because the debt security issue is for less than $5,000,000.

3. San Gabriel may execute and deliver an Eighteenth Supplemental Trust Indenture in substantially the same form as Exhibit C, attached to the application.

4. San Gabriel may apply a portion of the proceeds from the sale of the New Bonds to purchase at $25 par value and retire all of its outstanding Preferred Stock.

5. San Gabriel shall apply the remainder of the proceeds from the sale of the New Bonds for the purposes set forth in the application.

6. San Gabriel shall file the reports required by General Order Series 24.

A.83-12-32 RR/CFF/FS/WPSC

The authority granted by this order will become effective when San Gabriel pays $4,238, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated FEB 16 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Victor Calvo, being necessarily absent, did not participate

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
11922
FEB 17 1984
$4238.00
By

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director

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