

ORIGINAL

Decision 84 OS 014

AUG 1 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )  
WATER COMPANY to issue and sell its )  
First Mortgage Bonds and/or its Term )  
Notes, the sum of Bonds and/or Notes )  
not exceeding \$6,000,000 principal )  
amount and to execute and deliver )  
Supplemental Indenture(s) and/or )  
Loan Agreement(s). )

Application 84-06-028  
(Filed June 11, 1984)

O P I N I O N

Southern California Water Company (SoCal Water) requests authority, under Public Utilities (PU) Code Sections 816-818 and 851, for the following:

1. To issue and sell for cash, in one or more series, up to \$6,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds) and/or Term Notes (Notes), or both;
2. To execute and deliver Supplemental Indentures and/or Term Loan Agreements;
3. To have its proposed issues exempted from the requirements of the Commission's competitive bidding rule; and
4. To use the net proceeds from the sale of the New Bonds or Term Notes to discharge its short-term indebtedness and to reimburse its treasury for capital expenditures.

Summary of Decision

This decision grants SoCal Water the authority requested in the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of June 13, 1984. No protests have been received.

SoCal Water, a California corporation, operates as a public water utility subject to the jurisdiction of this Commission. SoCal Water provides water service to customers in portions of 11 California counties and electric service in the vicinity of Big Bear Lake in San Bernardino County.

For the 12 months ended March 31, 1984, SoCal Water reported it generated total operating revenues of \$55,419,000 and net income of \$4,927,000 shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A is SoCal Water's Balance Sheet as of March 31, 1984 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$144,302,000
Other Investments	606,000
Current Assets	12,167,000
Deferred Charges	<u>659,000</u>
Total	\$157,734,000
<u>Liabilities and Equity</u>	
Common Equity	\$ 33,880,000
Preferred Stock	14,000,000
Long-Term Debt	47,028,000
Current Liabilities	13,375,000
Advances and Contributions in Aid of Construction	45,206,000
Deferred Credits	<u>4,245,000</u>
Total	\$157,734,000

SoCal Water proposes to issue and sell, in one or more series, its New Bonds and/or Notes, or both, in the aggregate principal amount of up to \$6,000,000, on or before September 1, 1984. The New Bonds are to be issued in accordance with, secured by, and have terms and conditions as set forth in the Trust Indenture dated May 1, 1947, executed and delivered by the utility to the Bank of America, as Trustee. The Trust Indenture has been amended by Supplemental Indentures, the forms of which have been filed with the Commission. A supplemental indenture would be executed and delivered with each series of the New Bonds. Each supplemental indenture would set forth (among other things) the aggregate principal amount, interest rate, and the maturity date of that series of the New Bonds. Each supplemental indenture would be substantially similar to indentures filed with the Commission.

SoCal Water, as of the application date, had not entered any contract for the purchase and sale of its New Bonds or did it have any loan agreement providing for the issuance of the Notes. The company plans to place the New Bonds and Notes privately with institutional investors.

Because of recent unstable market conditions, SoCal Water does not believe that it is in its best interest, or in the best interest of its ratepayers, to determine the definitive terms of the New Bonds at this time. Therefore, SoCal Water seeks

Commission authority to offer, issue, and sell the New Bonds, in one or more offerings, with terms and conditions which will provide for the following:

1. Interest rates based upon market conditions existing at the time of negotiating the terms;
2. Restrictive redemption provisions (if any) which will reflect the requirements of the existing bond market at the time of sale;
3. Redemption premiums for the periods and in the amounts as the bond market existing at the time of sale will require;
4. Maturities from 10 to 15 years; and
5. Any other provisions as SoCal Water shall deem appropriate in connection with the issuance and sale of its New Bonds that are not inconsistent with the Trust Indenture.

SoCal Water may deem it to be in its best interest to issue Notes. Preliminary discussions with SoCal Water's present short-term lenders indicate that one or more series of Notes, having maturities of five to seven years with no compensating balances, may be issued at a cost which may be less than the cost of longer term securities. The Notes may, or may not, be callable by SoCal Water. However, because the Company and its financial advisors anticipate improvement in the long-term debt market, SoCal Water seeks Commission authority to issue this indebtedness, when conditions improve upon terms and conditions, as may be agreed upon at the time of sale without specifying the terms of the Notes in

the application. The Notes would be issued under a loan agreement or loan agreements. The agreements will be substantially in the form previously filed with the Commission. SoCal Water requests authorization to execute and deliver each loan agreement in a form which it believes appropriate and which reflects the aggregate principal amount, interest rate, and final maturity date of each series of the Notes.

Request for Exemption from Competitive Bidding

The application indicates that SoCal Water's management believes, based on information received from its principal advisers, that the sale of all or part of the \$6,000,000 aggregate principal amount of the New Bonds and/or Notes, by private placement rather than through competitive bidding, may enable the utility to obtain a more favorable interest rate. Among other things, a private placement should enable SoCal Water to tailor the maturity schedule of the New Bonds and/or Notes sold to the preference of institutional purchasers in exchange for more favorable terms than would otherwise be available if they were financed through competitive bidding. SoCal Water, therefore, requests an exemption from the Commission's competitive bidding rule for the issuance and sale of up to \$6,000,000 aggregate principal amount of New Bonds and/or Notes.

Rules adopted by this Commission in D.38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556, and D.81908, generally require California public utilities to obtain competitive bids for the purchase of their debt securities. The rules authorize this Commission to grant exemptions from the competitive bidding requirements. The Commission has done so, from time to time, upon a showing of compelling circumstances.

SoCal Water believes that compelling circumstances exist and requests an exemption from this Commission's competitive bidding requirements for its proposed financings. SoCal Water believes that the financial flexibility that would be afforded by this exemption would enable it to meet its debt financing requirements on the most favorable terms available.

We are persuaded that an inflexible adherence to the requirements of the competitive bidding rule may not be in the public interest, given SoCal Water's need for large amounts of capital in a period of increasing competition for available funds. The Federal Government's need to finance extraordinary budget deficits, while the private sector borrowing demands are expanding, has put upward pressure on interest rates. These considerations warrant granting SoCal Water maximum flexibility in this financing program. Consequently, for this application only, we will authorize SoCal Water to proceed on either competitive bidding,

negotiated public offerings, or negotiated private placements, according to SoCal Water's estimation of where the most favorable opportunity lies.

If SoCal Water issues and sells its New Bonds and/or Notes by means of negotiated public offerings or negotiated private placements, we will require SoCal Water to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period after the issuance and sale of the proposed New Bonds and/or Notes.

Capital Ratios

SoCal Water's capital ratios as of March 31, 1984 are shown below as reported and adjusted to give pro forma effect to the proposed sale of long-term debt securities, the reduction in short-term debt, and additional temporary short-term borrowing as follows:

	<u>March 31, 1984</u>	<u>Pro Forma</u>
Long-Term Debt	46.6%	51.6%
Short-Term Debt	<u>5.9</u>	<u>1.9</u>
Total Debt	52.5%	53.5
Preferred Stock	13.9	13.6
Common Equity	<u>33.6</u>	<u>32.9</u>
Total	100.0%	100.0%

SoCal Water's short-term debt is anticipated to be \$6,000,000 as of June 30, 1984 and \$8,000,000 prior to the sale of the proposed debt securities.

Use of Proceeds

SoCal Water proposes to issue and sell its New Bonds and/or Notes, or both, in the aggregate principal amount of \$6,000,000 for the purpose of discharging its short-term debt obligations and to reimburse its treasury for capital expenditures.



SoCal Water is considering two possible methods of repaying its short-term debt. The first method would be by issuance of the New Bonds and the second by issuance of unsecured Notes. Because of the present conditions of the money market, it is not now possible to state which debt instrument would provide the most favorable terms to SoCal Water or to state the terms and conditions of the securities.

SoCal Water seeks the authority to issue its securities at this time rather than waiting until all terms and conditions are known so as to provide reasonable assurance to its short-term creditors that they will be paid. Also, to have the authority in a difficult and fluctuating money market to secure longer term indebtedness in an expeditious manner as conditions improve.

SoCal Water's capital budget for the year 1984 and estimated for 1985 are summarized as follows:

	<u>1984</u>	<u>1985</u>
<u>Water</u>		
General (Land, Water Supply, Distribution Plant, etc.)	\$ 5,158,400	\$ 6,421,700
New Business	3,892,600	3,458,900
Blankets (meters, service, etc.)	<u>1,379,200</u>	<u>1,782,900</u>
	\$10,430,200	\$11,663,500
Less: Advances and Contri- butions	<u>3,827,000</u>	<u>-</u> <sup>1/</sup>
Total Water	\$ 6,603,200	\$11,663,500
Electric-Net of Advances	\$ <u>676,900</u>	\$ <u>707,800</u>
Total Water and Electric	\$ 7,280,100	\$12,371,300 <sup>1/</sup>

<sup>1/</sup> SoCal Water has not estimated its Water Advances and Contributions for 1985.

The Commission's Revenue Requirements Division has reviewed SoCal Water's construction budget for 1984 and 1985 and finds that the sale of SoCal Water's New Bonds and/or Notes is necessary to fund the planned construction expenditures. The Division is not finding that the construction is necessary and reasonable or that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Revenue Requirements Division has analyzed the statement of financial position attached to the application. The Division has determined that cash generated from internal sources will provide about 33% of the capital requirements for 1984. The Division has no objection to granting SoCal Water the authority requested in its application.

Findings of Fact

1. SoCal Water, a California corporation, operates as a public water utility subject to the jurisdiction of this Commission.
2. The proposed issuance and sale of SoCal Water's New Bonds and/or Notes, or both, would be for proper purposes.
3. SoCal Water has need for external funds for the purposes set forth in the application.
4. The proposed redemption provisions are reasonable.
5. The money, property, or labor to be procured, or paid for, by the New Bonds and/or Notes is reasonably required for the purposes specified in the application.
6. The sale of the proposed New Bonds and/or Notes should not be required to be through competitive bidding.
7. The proposed supplemental indentures and the proposed loan agreements would not be adverse to the public interest.
8. There is no known opposition and 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 proposed security issue or issues are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the security issue, or issues, may not be charged to operating expenses or income.

The following order will be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable SoCal Water to issue its debt securities expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company (SoCal Water), on or after the effective date of this order and on or before December 31, 1984, may issue, sell, and deliver for cash at one time, or from time to time, up to \$6,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds) and/or Term Notes (Notes), or both, in one or more series, by means of negotiated private placements, negotiated public offerings, or by competitive bidding upon terms and conditions substantially consistent with those set forth or contemplated in the application.

2. SoCal Water may execute and deliver one or more supplemental indentures and/or loan agreements consistent with the terms and conditions set forth in the application.

3. Sales, by SoCal Water, of its New Bonds and/or Notes, or both, in the aggregate principal amount of up to \$6,000,000 are exempted from the Commission's competitive bidding rule for the purpose of permitting these sales by negotiated private placements; alternatively, SoCal Water may issue and sell its New Bonds and/or Notes, or both, by means of negotiated public offerings or by competitive bidding.

4. SoCal Water shall file a copy of the supplemental indenture(s) and/or loan agreement(s) and a written report within 30 days of each and every sale, with the Commission, showing the terms and conditions of the New Bonds and/or Notes and fees incurred.

5. If the New Bonds and/or Notes are sold by means of competitive bidding or by negotiated public offerings, as soon as available, SoCal Water shall file, with the Commission, three copies of its final prospectus pertaining to the New Bonds and/or Notes.

6. Within 30 days after the issuance and sale of any series of New Bonds and/or Notes by means of negotiated public offerings or negotiated private placements, SoCal Water shall file, with the Commission, a report showing why the resulting interest rate and cost of money to the company were the most advantageous to it and its ratepayers.

7. SoCal Water shall apply the net proceeds from the sale of the New Bonds and/or Notes, or both, to the purposes set forth in the application.

8. SoCal Water shall file the reports required by General Order Series 24.

9. The authority granted by this order to issue New Bonds and/or Notes shall become effective when SoCal Water pays \$7,000, the fee set by PU Code Section 1904(b). In all other respects this order is effective today.

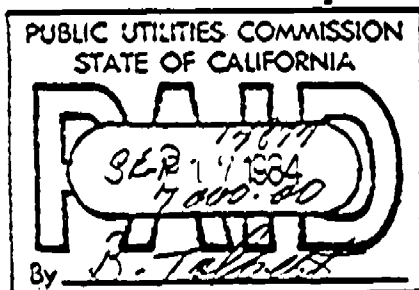
10. This application is granted as set forth above.

Dated AUG 1 1984 at San Francisco, California.

Commissioner Priscilla C. Grew,  
being necessarily absent, did  
not participate

Commissioner William T. Bagley  
being necessarily absent, did  
not participate.

LEONARD M. GRIMES, JR.  
President  
VICTOR CALVO  
DONALD VIAL  
Commissioners



I CERTIFY THAT THIS DECISION  
WAS MADE IN ACCORDANCE WITH THE ABOVE  
CERTIFICATION.

*Joseph E. Bodovitz*  
Joseph E. Bodovitz, Executive Director