

Decision 89 01 037 JAN 27 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )  
 WATER COMPANY to issue and sell )  
 First Mortgage Bonds and/or )  
 Debentures and/or Notes not exceeding )  
 \$18,000,000 principal amount and to )  
 execute and deliver Supplemental )  
 Indenture(s) and/or Loan Agreements(s) )  
 U-133-M )

ORIGINAL

Application 88-11-034  
(Filed November 14, 1988)

O P I N I O N

Summary of Decision

This decision grants Southern California Water Company (SoCal Water) the authority requested in the application.

SoCal Water requests authority, under Public Utilities Code (Code) Sections 818 through 830 and 851, for the following:

1. To issue and sell up to \$18,000,000 aggregate principal amount of First Mortgage Bonds (New Bonds), and/or Debentures and/or Notes (to be collectively referred to as Debt Securities); and
2. To execute and deliver supplemental indenture(s) (Indentures) and/or Loan Agreements (Agreements) in connection with the sale of the Debt Securities.

Notice of the filing of the application appeared on the Commission's Daily Calendar of November 22, 1988. No protests have been received.

SoCal Water, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. SoCal Water provides water service to customers in portions of 10

California counties and electric service in the vicinity of Big Bear Lake in San Bernardino County.

For the 12 months ended September 30, 1988, SoCal Water reported that it generated total operating revenues of \$80,251,000 and net income of \$8,120,000 shown as part of the supplemental data attached to the application.

Also shown as part of Exhibit A attached to the application is SoCal Water's Balance Sheet as of September 30, 1988 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$208,146,000
Other Property and Investments	811,000
Current Assets	21,822,000
Deferred Charges	2,019,000
Total	<u>\$232,798,000</u>
 <u>Liabilities and Equity</u>	
Common Equity	\$ 67,485,000
Preferred Stock	2,440,000
Long-Term Debt	56,711,000
Current Liabilities	28,259,000
Advances and Contributions	64,949,000
Deferred and Credits and Reserves	12,954,000
Total	<u>\$232,798,000</u>

Sale of Debt Securities

SoCal Water seeks authority to issue and sell the Debt Securities using one or a combination of three methods. The first method would be the issuance of New Bonds, the second by issuance of Debentures and third by issuance of unsecured Notes. Because

of the present conditions in the financial markets, it is not now possible to state which debt instrument or any combination of the three would provide the most favorable terms to SoCal Water or to state the terms and conditions of these securities. In sections that follow, SoCal Water describes the features that it believes each security would contain.

SoCal Water seeks authority at this time to issue the Debt Securities rather than waiting until all terms and conditions are known so as to have authority in a fluctuating money market to secure longer-term indebtedness in an expeditious manner.

#### Sale of New Bonds

It is anticipated that the New Bonds would be sold for cash at 100% of par value, plus accrued interest from the date of the New Bonds, and at an interest rate to be determined by SoCal Water's Board of Directors in light of market conditions at the time of sale. It is anticipated that the New Bonds would mature in 10 or more years, and would be redeemable at the option of SoCal Water at any time, subject to certain restrictions described as follows. Prior to maturity, the New Bonds may be redeemable at a price based upon the principal amount, accrued interest and a premium. The premium would be a percentage of the principal amount and the premium would decrease every twelve months from the date the New Bonds were first issued and would decline in total to zero by the year of maturity.

SoCal Water believes that the New Bonds might not be redeemable until some time close to their maturity. In its application, SoCal Water stated that any redemption may not be possible in less than five years before their normal maturity date. The redemption has to be for the purpose of or in anticipation of refunding the New Bonds by the use directly or indirectly, of funds borrowed by SoCal Water at an annual cost less than the annual cost of money of the New Bonds. A similar restrictive redemption provision has been applicable to SoCal Water's prior issues of debt securities. SoCal Water believes that present and anticipated market conditions are not more favorable for marketing the New Bonds without the above described non-redemption feature, than they were at the time of issuance of prior debt securities.

#### Sale of Debentures

It is anticipated that the Debentures would be sold for cash at 100% of par value, plus accrued interest from the date of the Debentures, at an interest rate to be determined by SoCal Water's board of directors in light of market conditions at the time of sale. It is anticipated that the Debentures would mature in 10 or more years, and would be redeemable at the option of SoCal Water at any time, subject to certain restrictions described

as follows. Prior to maturity, the Debentures may be redeemable at a price based upon the principal amount, accrued interest and a premium. The premium would be a percentage of the principal amount, and the premium would decrease every twelve months from the date the Debentures were first issued and would decline in total to zero by the year of maturity.

SoCal Water believes that the Debentures might not be redeemable until some time close to their maturity. In its application, SoCal Water stated that any redemption may not be possible in less than five years before their normal maturity date. The redemption has to be for the purpose of or in anticipation of refunding the Debentures by the use directly or indirectly, of funds borrowed by SoCal Water at an annual cost less than the annual cost of money of the Debentures. A similar restrictive redemption provision has been applicable to SoCal Water's prior issues of debt securities. SoCal Water believes that present and anticipated market conditions are no more favorable for marketing the Debentures without the above described non-redemption feature than they were at the time of issuance of prior debt securities.

Each series of debentures, if issued, would be issued in accordance with the provisions of an Indenture to be executed and delivered by SoCal Water, forms of which have been filed with the Commission. The Indenture would set forth, among other things, the aggregate principal amount, interest rate, conversion factors, redemption and sinking fund requirements and the maturity date of

that series of the Debentures. SoCal Water requests authorization to execute and deliver each Indenture in a form which the company believes appropriate and which reflects the terms of the Debentures.

Sale of Notes

In the past, SoCal Water has issued notes at a cost of issuance substantially lower than that incurred in the issuance of bonds or debentures. The maturity of Notes issued under the requested authority would be 10 years or longer. They may or may not be callable by SoCal Water. The Notes would be issued under a Loan Agreement or Loan Agreements which will be substantially similar to agreements previously filed with this Commission. SoCal Water requests authority to execute and deliver these Loan Agreements in a form which the utility believes appropriate and which reflects the aggregate principal amount, interest rate, final maturity date and other items of each series of the Notes.

Competitive Bidding Rule

Under the provisions of Commission Resolution F-616 dated October 1, 1986, SoCal Water's proposed issue and sale of its Debt Securities is exempt from the Commission's Competitive Bidding Rule because the aggregate principal amount is less than \$20,000,000.

Use of Proceeds

In the application, SoCal Water indicates that the estimated \$18,000,000 from the proposed sale of the Debt

Securities would be used for the retirement and discharge of all or a portion of the utility's outstanding short-term bank loans. The balance, if any, would be used for the reimbursement to SoCal Water for capital expenditures in 1989.

Construction Budgets

For the years 1989 and 1990, SoCal Water's estimated construction budgets, filed by the utility by letter dated December 7, 1988 with the CACD, are summarized as follows:

Construction Budgets

<u>Component</u>	<u>1989</u>	<u>1990</u>
Land	\$ 0	\$ 20,000
Water Supply	6,082,000	6,207,200
Street Improvements	665,000	1,105,000
Distribution Improvements	4,823,200	4,861,200
Miscellaneous	4,119,100	542,200
Contingencies	250,500	200,000
Meters	1,199,600	1,304,100
Services	696,300	692,200
Minor Main Replacements	182,400	187,600
Office Equipment	76,000	27,100
Transportation Equipment	623,400	377,700
Other Equipment	148,300	136,500
Electric Plant	1,052,000	1,071,000
Total	<u>\$24,457,800</u>	<u>\$21,361,800</u>

The Commission Advisory and Compliance Division (CACD) Water Utilities Branch has reviewed SoCal Water's construction budgets and it has concluded that the requested issuance of Debt Securities by the utility is justified, in order to retire outstanding short-term bank loans and help to meet capital requirements for future construction for the whole company.

However, SoCal Water is placed on notice by this decision that the Commission does not find that its construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

In the letter dated December 7, 1988 to the CACD, SoCal Water's revised estimated cash requirements forecast for the years 1989 and 1990 indicated that internally generated funds will provide about 10.3% or \$5,500,000 of cash expenditures for 1989 and about 18.4% or \$6,000,000 for 1990. SoCal Water will require additional funds from outside sources amounting to about \$47,799,000 in 1989 which includes the refunding of \$26,000,000 in short-term debt. SoCal Water will also require about \$26,581,000 in 1990. CACD concludes that SoCal Water's proposed issuance and sale of its Debt Securities is necessary to help meet forecasted cash requirements.



Capital Ratios

SoCal Water's capital ratios as of September 30, 1988 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>September 30, 1988</u>	<u>Pro Forma</u>
Long-Term Debt	40.6%	52.0%
Short-Term Debt	9.9%	0
Total Debt	<u>50.5</u>	<u>52.0</u>
Preferred Stock	1.7	1.7
Common Equity	47.8	46.3
Total	<u>100.0%</u>	<u>100.0%</u>

1. The proposed issuance and sale of up to \$18,000,000 aggregate principal amount of SoCal Water's Debt Securities.
2. The proposed estimated financing of \$400,000 under Application 88-10-039.
3. The repayment of outstanding short-term indebtedness with proceeds from the financing authority requested in this application.

As indicated on Schedule VII of supplemental data attached to this application, the CACD has noted that SoCal Water presently has plans to issue approximately \$8,000,000 worth of its common shares, coupled with the conversion of approximately \$3,476,800 worth of its convertible subordinated debentures into

common shares. If these transactions are factored into the pro forma information, the capital ratios would be as follows:

Long-Term Debt	47.0%
Short-Term Debt	0
Total Debt	<u>47.0</u>
Preferred Stock	1.6
Common Equity	51.4
Total	<u>100.0%</u>

The CACD Accounting & Finance Branch has reviewed and analyzed the financial data included in SoCal Water's application and the utility's other financial data covered by subsequent letters and attached supplemental data sheets forwarded to the CACD. The CACD has no objection to the proposed issue and sale of the Debt Securities and recommends that SoCal Water be granted the authority to issue and deliver its proposed Indentures.

#### Findings of Fact

1. SoCal Water, a California Corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. The proposed issuance of the Debt Securities would be for proper purposes and not adverse to the public interest.
3. The terms and conditions of the proposed Indenture are reasonable and not adverse to the public interest.
4. SoCal Water has need for external funds for the purposes set forth in the application.

5. The proposed issue of Debt Securities is not required to be issued through competitive bidding.

6. The Commission does not, by this decision, determine that SoCal Water's construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

7. There is no known opposition to the application 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 that follows.

The proposed Debt Securities are for lawful purposes and the money, property or labor to be obtained, or paid for, by them is required for these purposes. Proceeds from the Debt Securities may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by Code Section 1904(b), to enable SoCal Water to expeditiously proceed with its financing.

**ORDER**

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, 1989, may issue and sell up to \$18,000,000 aggregate principal

amount of its First Mortgage Bonds, and/or Debentures and/or Notes (Debt Securities) by private placement on terms and conditions to be negotiated with the investors.

2. SoCal Water may execute and deliver a supplemental indenture or indentures (Indenture) and/or a loan agreement or agreements (Agreements), in form(s) substantially similar to those on file with the Commission, in connection with the Debt Securities.

3. SoCal Water shall apply the net proceeds from the sale of the Debt Securities for the purposes set forth in the application.

4. SoCal Water's proposed issuance and sale of the Debt Securities is exempt from the Commission's Competitive Bidding Rule under the provisions of Commission Resolution F-616 dated October 1, 1986, because the aggregate principal amount of these Debt Securities is less than \$20,000,000.

5. Promptly, after executing the Indentures and/or Agreements pertaining to the issuance and sale of the Debt Securities, SoCal Water shall file copies of these documents and a written report with the CACD, showing the interest rate and the cost of money to the company based on the price, interest rate and other terms concerning the Debt Securities.

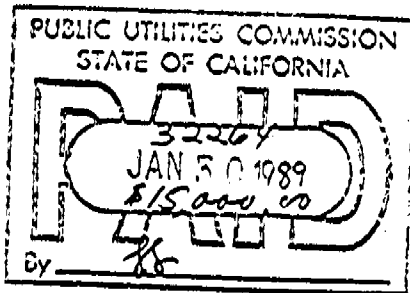
6. SoCal Water shall file the reports required by General Order Series 24.

7. The application is granted as set forth above.

The authority granted herein shall become effective when SoCal Water pays \$15,000, the fee set Code Section 1904(b). In all other respects, this order is effective today.

Dated JAN 27 1989, at San Francisco, California.

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OGANIAN  
Commissioners



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

Victor Weisser, Executive Director

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