

Decision 91-03-047 March 22, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA)
 WATER COMPANY (U-133-M) to issue)
 and sell First Mortgage Bonds)
 and/or Debentures and/or Notes not)
 exceeding \$28,000,000 principal)
 amount and to execute and deliver)
 Supplemental Indenture(s) and/or)
 Loan Agreement(s))

ORIGINAL

Application 90-12-073
(Filed December 26, 1990)

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 (PU) Code Sections 816 through 830 and 851, for the following:

1. To issue and sell up to \$28,000,000 aggregate principal amount of First Mortgage Bonds (New Bonds), and/or Debentures and/or Notes (to be collectively referred to as Debt Securities);
2. To execute and deliver Supplemental Indenture(s) (Indentures) and/or Loan Agreements (Agreements) in connection with the sale of the Debt Securities;
3. To have its proposed Debt Securities exempted from the requirements of the California Public Utilities Commission's (Commission) Competitive Bidding Rule under Commission Resolution F-616; and
4. To use the proceeds from the sale of the Debt Securities to discharge its short-term indebtedness and to reimburse its treasury for capital expenditures.

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

For the twelve month period ended September 30, 1990, SoCal Water reported that it generated total operating revenues of \$88,307,000 and net income of \$9,696,000, as shown in the supplemental data attached to the application.

SoCal Water's Condensed Balance Sheet at September 30, 1990, shown as part of Exhibit A attached to the application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$230,247,000
Other Property and Investments	3,439,000
Current Assets	28,048,000
Deferred Charges	<u>1,443,000</u>
Total	\$263,177,000 -----

<u>Liabilities and Equity</u>	
Common Equity	\$ 70,803,000
Preferred Stock	2,360,000
Long-Term Debt	67,377,000
Current Liabilities	24,274,000
Advances and Contributions	74,137,000
Deferred Credits	<u>24,226,000</u>
Total	\$263,177,000 -----

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 by 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, the utility claims 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. The terms that SoCal Water believes would be applicable for each security were described in Sections VII, VIII, and IX of its application and are summarized below.

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 20 or more years, and would be redeemable at the option of SoCal Water at any time, subject to certain restrictions described below. 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 based upon either a percentage of the principal amount decreasing every twelve months from the date the New Bonds were first issued, or some later date, and would decline in total to zero by the year of maturity or some other "make-whole" method, or a combination of these methods.

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, if it is 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 bonds. 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 bonds.

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 20 or more years, and would be redeemable at the option of SoCal Water at any time, subject to certain restrictions described below. 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 based upon either a percentage of the principal amount decreasing every twelve months from the date the Debentures were first issued, or some later date, and would decline in total to zero by the year of maturity, or some other "make-whole" method, or a combination of these methods.

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 ten years before their normal maturity date. A similar restrictive redemption provision has been applicable to SoCal Water's prior issues of debentures. 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 debentures.

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. 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. It is anticipated that the Notes would be sold for cash at 100% of par value, plus accrued interest from the date of the Notes, 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 Notes would mature in 20 or more years and would be redeemable by SoCal Water at any time, subject to certain restrictions described below. Prior to maturity, the Notes may be redeemable at a price based upon the principal amount, accrued interest and a premium. The premium would be based upon either a percentage of the principal amount decreasing every twelve months from the date the Notes were first issued, or some later date, and would decline in the total to zero by the year of maturity, or some other "make-whole" method, or a combination of these methods.

SoCal Water believes that the Notes 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 ten years before their normal maturity date. A similar restrictive redemption provision has been applicable to SoCal Water's prior issues of Notes. SoCal Water

believes that present and anticipated market conditions are no more favorable for marketing the Notes without the above described non-redemption feature than they were at the time of issuance of prior Notes.

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 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.

The Commission Advisory and Compliance Division (CACD) has reviewed the company's request to issue Debt Securities. We place SoCal Water on notice that in its next general rate proceeding before the Commission, the reasonableness of the interest rate and cost of money resulting from the issue of SoCal Water's Debt Securities will be closely scrutinized and may result in a disallowance of the interest expense, if it is determined that the cost of money incurred was not prudent. We will also require SoCal Water to provide us with a showing of why SoCal Water believes that the resulting interest rate and cost of money were advantageous to SoCal Water and its ratepayers. We will require this showing within a reasonable period of time after issuance of its Debt Securities.

Competitive Bidding Rule

SoCal Water proposes in Section X of its application to issue and sell its New Debt Securities in two or more series and/or to two or more purchasers. No one series will exceed \$20,000,000 and/or no one purchaser will be permitted to acquire more than \$20,000,000 in New Debt. Under the provisions of Commission Resolution F-616, dated October 1, 1986, SoCal Water's proposed issue and sale of Debt Securities is exempt from the

Commission's Competitive Bidding Rule because the principal amount of each series of debt and/or debt sold to any one purchaser will be less than or equal to \$20,000,000.

Capital Ratios

SoCal Water's capital ratios as of September 30, 1990 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>September 30, 1990</u>	<u>Pro Forma</u>
Long-Term Debt	46.3%	56.7%
Short-Term Debt	<u>3.8%</u>	<u>0.0%</u>
Total	50.1%	56.7%
Preferred Stock	1.6%	1.4%
Common Equity	<u>48.3%</u>	<u>41.9%</u>
Total	100.0%	100.0%

1. The proposed issuance of sale of up to \$28,000,000 aggregate principal amount of SoCal Water's Debt Securities.
2. The repayment of outstanding short-term indebtedness with proceeds from the financing authority requested in this application.

SoCal Water is placed on notice, by this decision, that the Commission does not find that SoCal Water's capital ratios are necessary or reasonable for ratemaking purposes. Those are issues normally tested in general rate cases or rate base offset proceedings.

Use of Proceeds

SoCal Water states that the estimated \$28,000,000 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 of SoCal Water for capital expenditures in 1991.

Construction Budget

SoCal Water's estimated construction budget for 1991 is summarized as follows:

Construction Budget

<u>Component</u>	<u>1991</u>
Land	\$ 530,000
Water Supply	7,495,300
Street Improvements	1,020,000
Distribution Improvements	4,374,700
Miscellaneous	451,000
Contingencies	1,323,200
Meters	985,000
Services	500,500
Minor Main Replacements	230,500
Office Equipment	192,000
Transportation Equipment	1,061,000
Other Equipment	258,200
Electric Plant	<u>1,881,700</u>
Total	\$20,303,100 -----

CACD has reviewed SoCal Water's construction budget and 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 Forecast

SoCal Water's cash requirements forecast for 1991 provided as part of the supplemental data attached to the application is shown as follows:

	<u>1991</u>
Funds Used and/or Required for	
Construction Expenditures	\$ 35,060,000
Short-term Debt Outstanding	<u>500,000</u>
Total Cash Requirements	\$ 35,560,000
Less: Cash from Internal Sources	<u>5,500,000</u>
Additional Funds Required from	
Outside Sources	\$ 30,060,000

CACD has analyzed SoCal Water's estimated cash requirements forecast for 1991 as provided in the Supplemental Data attached to the application. CACD has concluded that internally generated funds will provide about 15.5% or \$5,500,000 of cash expenditures for 1991. SoCal Water will require additional funds from outside sources amounting to about \$30,060,000 in 1991. CACD concludes that SoCal Water's proposed issuance and sale of its Debt Securities is necessary to help meet forecasted cash requirements. CACD has reviewed the application and concluded that the proposed financing is reasonable and that the authority should be granted.

Findings of Fact

1. Notice of the filing of the application appeared on the Commission's Daily Calendar of January 8, 1991. No protests have been received.

2. SoCal Water, a California Corporation, operates as a public utility subject to the jurisdiction of this Commission.

3. The proposed issuance of the Debt Securities, as outlined in the application, is for proper purposes and is not adverse to the public interest.

4. The reasonableness of the interest rate and cost of money resulting from the proposed issuance of Debt Securities will be reviewed in SoCal Water's next general rate proceeding.

5. SoCal Water needs external funds for the purposes set forth in the application.

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 following order.

3. 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.

4. 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.

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, 1991, may issue and sell up to \$28,000,000 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 and substantially consistent with those contemplated in the application.

2. SoCal Water may execute and deliver a Supplemental Indenture or Indentures (Indenture) and/or a Loan Agreement or Agreements (Agreements). Within 15 days after executing the Indentures and/or Agreements pertaining to the issuance and sale of the Debt Securities, SoCal Water shall file three copies of these documents and a written report with the Commission Advisory and Compliance Division (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.

3. SoCal Water shall apply the net proceeds from the sale of the Debt Securities to 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.

5. Within 30 days after the issuance and sale of the Debt Securities, SoCal Water shall file with CACD a report setting forth the reasons the utility believes the method used to issue the Debt Securities, the resulting interest rate and cost

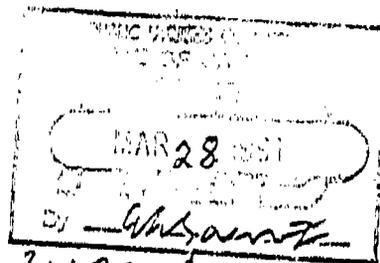
of money were the most advantageous to SoCal Water and its ratepayers.

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

7. The application is granted as set forth above. The authority granted herein shall become effective when SoCal Water pays \$20,000, the fee set by Public Utilities Code Section 1904(b). In all other respects, this order is effective today.

Dated March 22, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL WM. FESSLER
NORMAN D. SHUMWAY
Commissioners



34475 - \$ 20,000. -

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

Neal J. Schulman
NEAL J. SCHULMAN, Executive Director
RB