

Decision 91-12-017 December 4, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
San Gabriel Valley Water Company)
(U 337-W), a California corporation,)
for authorization to issue and sell)
not exceeding \$7,000,000 aggregate)
principal amount of its First)
Mortgage Series N, 9.90% Bonds due)
October 1, 2021, and to execute and)
deliver a Nineteenth Supplemental)
Trust Indenture.)

ORIGINAL

Application 91-08-025
(Filed August 13, 1991)

OPINION

Summary of Decision

This decision grants San Gabriel Valley Water Company's (San Gabriel) request for authority to issue and sell to Pacific Mutual Life Insurance Company (Pacific Mutual) not exceeding \$7,000,000 aggregate principal amount of its 9.90% First Mortgage Bonds, Series N, due October 1, 2021 (Bonds) as described in Application 91-08-025 (Application). As part of this Application, San Gabriel also requests the authority to execute and deliver a Nineteenth Supplemental Trust Indenture (New Indenture) to the Bank of America National Trust and Savings Association (Bank of America) as Trustee. This authority is granted under Public Utilities (PU) Code §§816 through 851.

Notice of the filing appeared on the Commission's Daily Calendar on August 21, 1991. No protests have been received.

Background

San Gabriel, a California corporation with its principal place of business in El Monte, 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 Bernadino counties.

For the twelve months ended June 30, 1991, San Gabriel reported operating revenues of \$29,093,815 and a net operating loss of \$399,247 as shown in Exhibit A, page 6, of its Application.

Exhibit A, page 5, to the Application shows San Gabriel's balance sheet as of June 30, 1991, which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$76,157,234
Other Property and Investments	4,550
Current Assets	4,518,337
Deferred Charges	<u>4,889,010</u>
Total	\$85,569,131
 <u>Liabilities and Equity</u>	
Common Equity	\$22,414,724
Long-Term Debt	10,800,000
Current Liabilities	13,102,419
Advances for Construction	16,936,394
Contributions in Aid of Construction	12,221,763
Other Deferred Credits	<u>10,093,831</u>
Total	\$85,569,131

Debt Financing

San Gabriel requests the authority to issue and sell, not exceeding \$7,000,000 principal amount, of its First Mortgage Series N, 9.90% Bonds, due October 1, 2021, to Pacific Mutual at a price of 100% of the principal amount thereof plus interest accrued thereon. A copy of the commitment between San Gabriel and Pacific Mutual as agreed to on July 25, 1991, was included in the Application as Exhibit D.

Description of the Financing and Manner of Issuance

San Gabriel proposes on October 1, 1991, or as soon thereafter as approval of the Application is granted, to issue and sell to Pacific Mutual \$7,000,000 principal amount of its Series N Bonds for cash, at 100% of the principal amount thereof plus

accrued interest. The Bonds are to be issued in December 1991 and are to mature in thirty years. They are to be issued under and to be secured by the original trust indenture and the New Indenture. San Gabriel will furnish the Commission a copy of the final executed agreement with Pacific Mutual for the sale of the Bonds within fifteen days following any such issuance and sale.

San Gabriel's officers have made inquiries which have caused it to reach the conclusion that the interest rate of 9.90% for the Bonds, along with the other terms proposed, are reasonable and consonant with current market conditions for an issue of this type and size. Further, San Gabriel believes that these terms compare favorably with recent issues of other California public utilities and are as fair as San Gabriel can reasonably expect to obtain.

San Gabriel estimates its expenses in connection with the issuance and sale of the Bonds, including the fees of special counsel for the bond purchaser, trustee's fees and expenses, the Public Utilities Commission fee, recording, printing, and other miscellaneous expenses, at \$35,000. There is no commission, discount, or finder's fee to be paid by San Gabriel in connection with the issuance and sale of the Bonds.

The sale of the Bonds is to be accomplished through a negotiated private placement with exemption from the Securities and Exchange Commission (SEC) registration requirements. San Gabriel points out that the costs of this registration will also be avoided.

Exemption from Competitive Bidding

San Gabriel notes in its Application that the issuance and sale of the Bonds is exempt from the Commission's Competitive Bidding Rule set forth in Decision (D.) 38614, as amended by D.49941, D.75556, and D.81903, and by Resolution Numbers F-591 and F-616. The Commission Advisory and Compliance Division (CACD) has reviewed San Gabriel's request and has determined that since the principal amount of the Bonds is less than \$20,000,000, the

exemption is warranted. CACD recommends that San Gabriel's request be granted. We concur with CACD's recommendation.

The Nineteenth Supplemental Trust Indenture

The Bonds will be secured by the existing trust indenture as previously supplemented and amended, and as further supplemented by the proposed New Indenture. San Gabriel proposes that the New Indenture will require it to retire the Bonds by making annual redemption payments of \$700,000 beginning on or before October 1, 2012 and each October 1 thereafter, to and including October 1, 2021. The interest on the Bonds will be payable semiannually.

The proposed New Indenture contains a provision that the Bonds may be redeemed, at San Gabriel's election, at any time prior to maturity, at a price equal to the greater of (i) par plus accrued interest, or (ii) the net present value of the remaining principal and interest payments due on the Bonds discounted by the bond yield on the U.S. Treasury due in the year corresponding to the then remaining average life of the Bonds plus fifty basis points. All of the five series of bonds presently outstanding also have call protection provisions. San Gabriel states that provisions of this type are generally required by bond purchasers and allow the granting of a more favorable interest rate.

Once it has been executed, the New Indenture will be submitted to the Commission within fifteen days after any such issuance and sale.

Construction Budget

San Gabriel's estimated construction budget, as summarized and included in Exhibit B to its Application, is shown as follows:

<u>Item</u>	<u>1991</u>
Land	\$ 315,000
Wells	990,000
Pumping Struc. & Equip.	2,682,000
Water Treatment Struc. & Equip.	463,300
Reservoirs & Tanks	35,000
Transmission & Distribution Services	3,439,800
Meters & Hydrants	1,347,100
General Structures	840,500
Equipment	40,000
	<u>602,800</u>
Total	\$10,755,500
Less: Advances for Construction	\$ 1,536,000
Contrib. in Aid of Construc.	<u>1,312,000</u>
Total	\$ 7,907,500

CACD has reviewed the Application and San Gabriel's construction program budget. CACD concludes that the proposed financing is necessary for San Gabriel's construction program; however, San Gabriel is placed on notice, by this decision, that the Commission does not find that San Gabriel's construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Capitalization Ratios

San Gabriel's capitalization ratios as of June 30, 1991, are summarized below as recorded and adjusted to give *pro forma* effect to the proposed transaction: (a) the proposed issuance of \$7,000,000 principal amount of the Bonds and (b) the repayment of short-term debt.

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
	(Thousands of Dollars)			
Long-term Debt	\$10,800	29.4%	\$17,800	44.3%
Short-term Debt	3,500	9.5%	0	0.0%
Common Equity	<u>22,415</u>	<u>61.1%</u>	<u>22,415</u>	<u>55.7%</u>
Total	\$36,715	100.0%	\$40,215	100.0%

San Gabriel is placed on notice, by this decision, that the Commission does not find that the above capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Cash Requirements Forecast

San Gabriel's cash requirements forecasts for 1991 and 1992, as shown in supplementary data provided to CACD, are summarized below:

	<u>1991</u>	<u>1992</u>
Funds Used or Required for		
Construction Expenditures (1)	\$10,755,500	\$ 9,153,800
Long-Term Debt Maturities	564,000	564,000
Increase (Decrease) in		
Cash Reserve	<u>542,000</u>	<u>(2,165,000)</u>
Subtotal	11,861,500	7,552,800
Less: Internal Cash Available	<u>2,013,500</u>	<u>2,502,000</u>
Additional Funds Required	\$ 9,848,000	\$ 5,050,800

1. Includes Advances for Construction and Contributions in Aid of Construction

CACD has analyzed San Gabriel's cash requirements forecasts for 1991 and 1992. CACD has concluded that internally generated funds will only provide 17.0% or \$2,013,500 of San Gabriel's cash requirements for 1991, and 33.1% or \$2,502,000 for 1992. CACD concludes that the proposed borrowing by San Gabriel is necessary to help meet forecasted cash requirements which include capital expenditures.

CACD has reviewed the Application and has concluded that the proposed financing is reasonable and that the authority should be granted. The Commission has considered CACD's recommendations and, finding them reasonable, will adopt them as stated above.

Use of Proceeds

In its Application San Gabriel states that it will use the net proceeds from the sale of the Bonds for the following purposes: (1) repayment of money borrowed on a short-term debt for the purposes of retiring long-term debt; (2) construction of additions and improvements to its water system; (3) financing of the 1991 capital budget; and (4) reimbursement of the treasury for capital expenditures previously made. San Gabriel states that \$1,500,000 of the Bonds shall constitute, under its Trust Indenture, a refunding of San Gabriel's retired Series G and Series H First Mortgage Bonds.

CACD has reviewed the uses requested by San Gabriel and recommends that all are for proper purposes. The Commission concurs and will adopt CACD's recommendation.

Findings of Fact

1. San Gabriel, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. San Gabriel has need for external funds for the purposes set forth in this decision.

3. The proposed financing, as outlined in this decision, would be for proper purposes and is not adverse to the public interest.

4. The money, property, or labor to be procured or paid for by the proposed financing is reasonable and required for the purposes specified in this decision.

5. The Commission does not, by this decision, determine that San Gabriel's construction budget is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or rate base offset proceedings.

6. The Commission does not, by this decision, determine that San Gabriel's capitalization ratios are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or cost of capital 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 which follows.

3. The proposed security issue and related agreements are for lawful purposes and the money, property, or labor to be obtained by them are required for these purposes. Proceeds from the financing may not be charged to operating expenses or income.

4. The following order should be effective on the date of approval and payment of the fee set by PU Code §1904(b) to enable San Gabriel to proceed expeditiously with its financing.

ORDER

IT IS ORDERED that:

1. San Gabriel Valley Water Company (San Gabriel), on or after the effective date of this order, is authorized to issue and sell at private sale not exceeding \$7,000,000 aggregate principal amount of its 9.90% First Mortgage Bonds, Series N, due October 1, 2021 (Bonds).

2. San Gabriel may execute any and all related documents required for completion of the proposed financing.

3. San Gabriel shall apply the net proceeds from the sale of the Bonds to the purposes set forth in this decision.

4. San Gabriel submit to the Commission Advisory and Compliance Division (CACD) copies of the agreement for the sale for the Bonds within fifteen days after the documents have been executed.

5. San Gabriel submit to CACD copies of the Nineteenth Supplemental Trust Indenture within fifteen days after the document has been executed.

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

7. San Gabriel shall submit an original and four copies of the reports required by ordering paragraphs four through six to CACD with a transmittal letter stating the application and decision numbers. Parties need not be served with copies of the reports unless they request such service in writing. When service is made on parties who request copies of the reports, San Gabriel shall attach to its report a certificate showing service by mail upon all those requesting copies. The Director of CACD shall send the original and one copy of each report to the Docket Office for filing.

8. The Application is granted as set forth above.

The authority granted by this order is effective when San Gabriel pays the fee of \$8,000.00 set by the Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated December 4, 1991 at San Francisco, California.

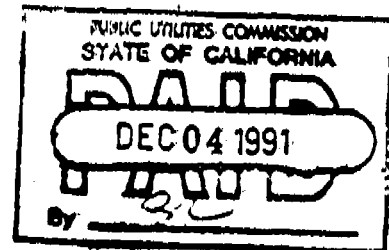
PATRICIA M. ECKERT
President

JOHN B. OHANIAN

DANIEL Wm. FESSLER

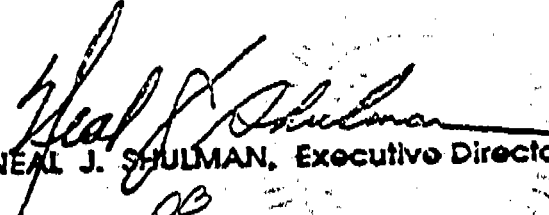
NORMAN D. SHUMWAY

Commissioners



acc. #35073
\$8,000.00

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


NEAL J. SHULMAN, Executive Director
ps