

CACD/BVC

Decision 92 06 029 JUN 03 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DOMINGUEZ WATER)
CORPORATION (U-330-W) for an Ex)
Parte Order Authorizing the)
Issuance of Bonds by Dominguez)
Water Corporation and the)
Encumbrance of its Property in)
Connection with this Issuance.)

ORIGINAL

Application 92-02-007
(Filed February 3, 1992)

O P I N I O N

Summary of Decision

This Decision grants Dominguez Water Corporation (Dominguez) the authority requested in its application.

Dominguez requested authority under Public Utilities Code (Code) Sections 818 and 851 to issue up to \$4,000,000 in aggregate principal of its First Mortgage Series J Bonds (Bonds) and to execute and deliver a Supplemental Indenture.

Notice of the filing of the application appeared on the Commission's Daily Calendar of February 10, 1992. No protests have been filed to date.

Dominguez is a corporation with its principal office and place of business located at 21718 South Alameda Street, Post Office Box 9351, Long Beach, California 90810. Dominguez provides water service to approximately 32,000 customers in service areas which include most of the City of Carson, a large portion of the City of Compton, a portion of Los Angeles County, and a commercial subdivision area in the City of Los Angeles. Dominguez is a wholly-owned subsidiary of Dominguez Services Corporation. Dominguez owns all of the outstanding capital stock of Antelope Valley Water Company which serves customers located in Northern Los Angeles County, Kernville Domestic Water Company

which serves customers located in Southern Kern County and Arden Water Company which serves customers located in the Wofford Heights area of Kern County.

For the year ended December 31, 1991, Dominguez reported in its application that it generated total operating revenues of \$15,423,579 and net operating income of \$1,781,398.

Dominguez's Balance Sheet as of December 31, 1991 is summarized as follows:

| <u>Assets</u> | <u>Amount</u> |
|-------------------------------|---------------|
| Net Utility Plant | \$28,378,362 |
| Land & Land Rights | 18,530 |
| Water Rights & Other | |
| Intangible Assets | 121,520 |
| Construction Work in Progress | 820,329 |
| Investment in Subsidiaries | 979,268 |
| Current Assets | 3,312,098 |
| Prepaid Taxes - Other | 1,003,335 |
| Deferred Debits | <u>21,388</u> |
| Total | \$34,654,830 |

| <u>Liabilities and Equity</u> | <u>Amount</u> |
|-------------------------------|------------------|
| Stockholder's Equity | \$10,185,312 |
| Long-Term Debt | 2,642,000 |
| Current Liabilities | 6,367,792 |
| Advances for Construction | 4,884,828 |
| Contr. in Aid of Constr. | 6,137,680 |
| Deferred Income Taxes | 1,536,029 |
| Unamortized Invest. Tax Cr. | 300,628 |
| Accrued Pension Cost | 1,031,766 |
| Deferred Credits | <u>1,568,795</u> |
| Total | \$34,654,830 |

First Mortgage Bonds

Dominguez seeks authority to issue its First Mortgage Series J Bonds (Bonds) in the aggregate principal amount of \$4,000,000. Dominguez anticipates that the Bonds will be substantially similar in form and content to that attached as Exhibit C with such changes or additions deemed necessary or appropriate in order to meet current market demands.

Dominguez states that the Bonds will mature thirty years after issuance, will be amortized over an average of twenty years and will have an interest rate to be set at the time of issuance and which Dominguez anticipates will be approximately 110 basis points above the then thirty-year Treasury Bond rate. The Bonds will be privately placed, subject to approval of the application by the Commission, to a limited number of institutional investors by the underwriter, Paine Webber, who will receive an underwriting fee of approximately \$50,000. Attached to the application as Exhibit D and incorporated in the application by reference is a copy of the proposal issued to Dominguez from Paine Webber with respect to the Bonds.

The Bonds will be secured by and issued under the provisions of Dominguez's existing Trust Indenture (Indenture), dated as of August 1, 1954, as supplemented, which has been previously filed with the Commission and is incorporated in the application by reference. Dominguez states that an additional supplement, Supplement No. 11 (Supplement), will be prepared to provide for the issuance of the Bonds pursuant to the Indenture. Dominguez states that it anticipates that the Supplement will be substantially similar in form and content to Supplemental Indenture No. 9 previously submitted to the Commission which is incorporated within the application by reference, with such changes or additions deemed necessary or appropriate in order to meet current market demands. As set forth in the Indenture, the Bonds will be secured by a lien on all of the real and personal property of Dominguez.

Capitalization Ratios

Dominguez's capitalization ratios at December 31, 1991, recorded, and at December 31, 1991, pro forma after giving effect to the proposed issuance of its Bonds in the aggregate principal amount of \$4,000,000 are as set forth below:

| | <u>Recorded</u> | | <u>Pro Forma</u> | |
|----------------|-------------------|-------------------|-------------------|-------------------|
| | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> |
| Long-Term Debt | \$ 2,891,000 | 19.7% | \$ 6,891,000 | 36.9% |
| Pref. Stock | 97,525 | 0.7 | 97,525 | 0.5 |
| Common Equity | <u>11,697,846</u> | <u>79.6</u> | <u>11,697,846</u> | <u>62.6</u> |
| Total | \$14,686,371 | 100.0% | \$18,686,371 | 100.0% |

Dominguez is placed on notice, by this decision, that the Commission does not find that its 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.

Construction Budgets

Dominguez's estimated construction budgets for calendar years 1992 and 1993 are summarized below:

| <u>Components</u> | <u>1992</u> | <u>1993</u> |
|---------------------------|----------------|----------------|
| Trans. & Distr. Mains | \$ 362,000 | \$ 450,000 |
| Land | 400,000 | -0- |
| Wells | 459,000 | 195,000 |
| Structures & Improvements | 97,000 | 37,500 |
| Pumping Equipment | 405,500 | 150,000 |
| Water Treatment | 142,000 | 7,500 |
| Reservoirs Tanks | 338,000 | -0- |
| Services | 73,500 | 73,500 |
| Meters | 108,800 | 108,800 |
| General Plant | <u>520,000</u> | <u>838,000</u> |
| Total | \$2,905,800 | \$1,860,300 |

Proceeds

Dominguez states that proceeds of the Bonds will be applied to pay off short-term debt and to fund certain capital improvements. Dominguez states that it currently owes approximately \$2.6 million on a \$3.5 million line of credit with Bank of America (Bank), at an annual interest rate equal to or below the Bank's reference rate, which is currently 6.5%. Dominguez has used this line of credit to purchase long-term capital assets in the past. Dominguez states that its management has determined that it is in Dominguez's best interest to replace this short-term debt with more secure long-term debt, the maturity of which will more closely approximate the amortization schedule applicable to the capital assets.

Dominguez states that it will use the remainder of the proceeds of the Bonds to fund certain capital improvements in its South Bay service area. These capital improvements and their projected costs include:

| | |
|--|----------------|
| Purchase of real property for 2 new well sites | \$ 400,000 |
| Construction costs associated with 3 new wells | 800,000 |
| Pipeline and main replacements | <u>200,000</u> |
| Total | \$1,400,000 |

Dominguez states that these improvements are needed to increase its water supply through the use of available pumping rights, to maintain its pipelines and mains in proper working order and to update its office and office equipment to provide the best possible service to its customers. Dominguez states that its management believes that it is necessary at this time to increase its water supply through the use of additional wells due to the uncertainty of and escalating cost associated with imported water supplies.

Cash Requirements Forecasts

Dominguez's cash requirements forecast for 1992 and 1993 is summarized as follows:

| <u>Components</u> | <u>1992</u> | <u>1993</u> |
|--|----------------|----------------|
| <u>Funds Required:</u> | | |
| Dividends | | |
| Common | \$1,004,370 | \$1,034,501 |
| Preferred | 4,961 | 4,961 |
| Advance Refunds | 200,000 | 204,000 |
| Refunding of S-T Debt | 213,000 | 138,000 |
| Subsidiaries | 260,000 | 200,000 |
| Cost of New Financing | 140,000 | 87,500 |
| Interest Expenses | 618,600 | 753,800 |
| Capital Additions: | | |
| Company Funded | 2,905,800 | 1,860,300 |
| Advances | 300,000 | 300,000 |
| Contributions | <u>150,000</u> | <u>150,000</u> |
| Total | \$5,796,731 | \$4,733,062 |
| Less: | | |
| <u>Estimated Internal Cash</u> | | |
| <u>Generation:</u> | | |
| Net Income | \$1,653,442 | \$1,073,343 |
| Depreciation | 930,330 | 1,050,210 |
| Deferred Inc. Taxes | 200,000 | 200,000 |
| Advances | 300,000 | 300,000 |
| Contributions | <u>150,000</u> | <u>150,000</u> |
| Total | \$3,233,772 | \$2,773,553 |
| Additional Funds Required from External Sources | \$2,562,959 | \$1,959,509 |

The Commission Advisory & Compliance Division (CACD) has analyzed Dominguez's cash requirements forecast for 1992 and 1993 as provided in the above summary. CACD has concluded that internally generated funds will provide about 55.8% or \$3,233,772

of the capital requirements in 1992 and 58.6% or \$2,773,553 in 1993. CACD concludes that the proposed issuance of the Bonds is necessary to help meet forecasted cash requirements which includes retirement of short-term debt and capital expenditures.

CACD has reviewed the application and has concluded that the proposed issuance of the Bonds is reasonable and that the authority should be granted.

Exemption from Competitive Bidding Rule

The net proceeds from the sale and issuance of the Bonds is less than \$20,000,000; therefore, the sale and issuance is exempt from the requirements of the Commission's competitive bidding rule set forth in its D.38614, as amended by D.49941, D.75556, and D.81908, and by Resolutions F-591 and F-616.

Findings of Fact

1. Dominguez, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. Dominguez has need for external funds for the purposes set forth in the application.
3. The proposed Bonds are for proper purposes.
4. The money, property or labor to be procured, or paid for, by the proposed Bonds is reasonably required for the purposes specified in the application.
5. Debt issues of less than \$20,000,000 are exempt from the requirements of the Commission's competitive bidding rule set forth in its D.38614, as amended by D.49941, D.75556, and D.81908, and by Resolutions F-591 and F-616.
6. 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.
3. The proposed Bonds are for lawful purposes and the money, property or labor to be obtained thereby is required for these purposes. Proceeds from the issuance of the Bonds may not be charged to operating expenses or income.

The following order shall be effective on the date of signature and payment of a fee of \$5,000 set by Section 1904(b) of the Code.

O R D E R

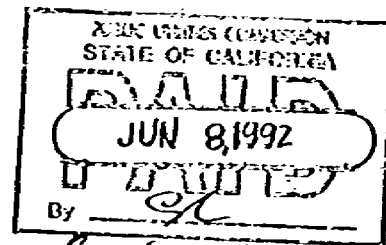
IT IS ORDERED that:

1. Dominguez Water Corporation (Dominguez), on or after the effective date of this order, may issue, sell and deliver up to \$4,000,000 in aggregate principal amount of its First Mortgage Series J Bonds (Bonds) and execute and deliver a Supplemental Indenture.
2. Dominguez shall apply the net proceeds from the issue of the securities for the purposes set forth in the application.
3. Dominguez shall file with the Commission Advisory and Compliance Division copies of the Bond Agreement and the Eleventh Supplemental Indenture not later than 15 days after the documents have been executed.
4. Dominguez shall file the reports required by General Order 24-B.
5. This application is granted as set forth above.

The authority granted by this order to issue the First Mortgage Series J Bonds will become effective when Dominguez pays \$5,000, the fee set by Public Utilities Code §1904(b). In all other respects this order is effective today.

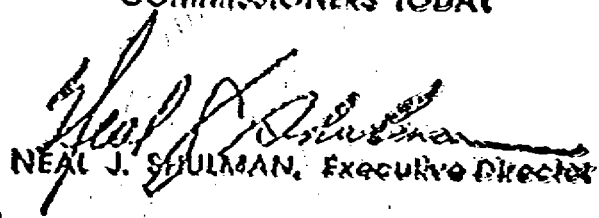
Dated JUN 03 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners



Rec. # 35465
5,000.00
6-8-92

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


NEAL J. SHULMAN, Executive Director