

ORIGINAL

Decision 92-07-079 July 22, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN GABRIEL VALLEY )  
WATER COMPANY U-337-W, a corporation, )  
to issue and sell \$7,000,000 aggregate )  
principal amount of its First Mortgage )  
Series "O" Bonds and to execute and )  
deliver a Twentieth Supplemental Trust )  
Indenture. )

Application 92-06-010  
(Filed June 4, 1992)

O P I N I O N

Summary of Decision

This decision grants San Gabriel Valley Water Company (San Gabriel) the authority requested in Application (A.) 92-06-010.

San Gabriel requests authority, pursuant to §§ 816 through 818 and § 851 of the California Public Utilities Code (PU Code), for the following:

1. To issue and sell not exceeding \$7,000,000 aggregate principal amount of its First Mortgage Series "O", 9.58% Bonds (Series O Bonds), due 2022 to Transamerica Occidental Life Insurance Company (Occidental) and Transamerica Life Insurance and Annuity Company (Transamerica), at a price of 100% of the principal amount plus accrued interest in accordance with the commitments set forth in Exhibit D attached to the Application;
2. To mortgage and encumber its properties to secure said Series O Bonds and to confirm the lien of the Trust Indenture (Original Indenture) dated as of September 1, 1945 between San Gabriel and Bank of America National Trust and Savings Association (Bank of America) as Trustee, as supplemented and amended by indentures supplemental thereto.

3. To execute and deliver the Twentieth Supplemental Trust Indenture (New Supplement) in substantially the same form as set forth in Exhibit C attached to the Application.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 18, 1992. No protests have been received.

Background

San Gabriel, a California corporation, operates as a water utility under the jurisdiction of this Commission. San Gabriel engages in the production, distribution and sale of water in Los Angeles and San Bernardino Counties.

For the twelve months ended March 31, 1992 San Gabriel reported it generated total operating revenues of \$31,773,837 and net income of \$2,904,148 as shown in Exhibit A, page 6 attached to the Application.

Also shown as part of Exhibit A, page 5 attached to the Application is San Gabriel's Balance Sheet at March 31, 1992 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$81,465,428
Non-Utility Properties	4,550
Current Assets	4,184,566
Deferred Charges	<u>11,141,487</u>
Total	\$96,796,031
<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$25,102,690
Current Liabilities	14,799,677
Long Term Debt	17,236,250
Deferred Income Taxes	6,415,709
Advances for Construction	16,766,672
Contributions	12,645,445
Other Deferred Credits	<u>3,829,588</u>
Total	\$96,796,031

Debt Securities

San Gabriel proposes to issue and sell to Occidental and Transamerica \$7,000,000 aggregate principal amount of its Series O Bonds for cash, at 100% of the principal amount thereof plus accrued interest. Occidental and Transamerica, as joint mortgage holders, will purchase a principal amount of \$3,500,000 each.

San Gabriel's first mortgage bonds have been issued under the terms and provisions of the Original Indenture executed by San Gabriel as of September 1, 1945 to Bank of America, as Trustee, as supplemented and amended by indentures supplemental thereto. The Series O Bonds will be issued under and secured by a New Supplement from San Gabriel to Bank of America in substantially the same form as in Exhibit C to the Application.

Terms and Conditions

The financing commitments between San Gabriel and both Occidental and Transamerica are shown in Exhibit D attached to the Application.

The Series O Bonds will be dated as of the first day of the month in which they are issued; will mature thirty years from that date; will be issued under and be secured by the Original Indenture and the New Supplement; and will be issued on the basis of property additions not heretofore utilized for that purpose.

The New Supplement requires:

1. that the interest on the Series O Bonds be payable semiannually;
2. that the issuance of additional bonds will be upon the basis of 60% of the lower of cost or fair value of property additions, after making certain deductions therefrom; on the basis of the retirement of previously issued bonds; and also upon the basis of the deposit of cash with the trustee;
3. that at any time ten years after the issue date, the Series O Bonds may be redeemed at the election of San Gabriel, at a price equal to the greater of:
  - a) the principal amount redeemed plus accrued interest to the date fixed for redemption;
  - or

- b) the net present value of the remaining principal and interest payments due on the Series O Bonds to be redeemed discounted by the bond yield as of the close of business on the fifth business day prior to the date set for redemption on the U.S. Treasury obligation having a maturity equal, or as close to equal as then available, to the then remaining average life of the Series O Bonds (as reported in the Wall Street Journal or, if no such bond yield is then reported in the Wall Street Journal, as quoted by a nationally recognized brokerage firm mutually acceptable to San Gabriel and the holders of the Series O Bonds to be redeemed) plus 50 basis points as calculated by San Gabriel.

All of San Gabriel's six series of bonds presently outstanding also have call protection provisions. According to San Gabriel, provisions of this type are generally required by bond purchases and allow the granting of a more favorable interest rate. San Gabriel believes that it is in its best interest and that of its ratepayers to agree to such a provision, which is not considered onerous since alternative financing at the same rate of interest is virtually unobtainable.

According to San Gabriel, discussions and inquiries made by its officers have caused it to reach the conclusion that the interest rate of 9.58% for the Series O Bonds, and the other terms proposed for such Series O Bonds, are reasonable and consonant with current market conditions for an issue of this type and size; compare most favorably with recent issues of other California public utilities; and are as fair as San Gabriel can expect to obtain.

San Gabriel believes it is advantageous to make this sale through private placement with an exemption from Securities Act registration and with attendant cost savings.

Exemption from Competitive Bidding

The principal amount of the Series O Bonds which San Gabriel proposes to sell does not exceed \$20,000,000. Therefore the issuance and sale of the Series O Bonds are exempt from the requirements of the Commission's Competitive Bidding Rule as set forth in its Decision (D.) 38614, as amended by D.49941, D.75556 and D.81908, and by Resolution F-616.

Construction Budget

A summary of San Gabriel's construction budget for 1992 and 1993 will approximate the following, as summarized and included as supplemental data to San Gabriel's Application:

<u>Item</u>	<u>Amount</u>	
	1992	1993
Fontana Union Stock	\$ 0	\$ 0
Land and Land Rights	0	0
Wells	75,000	240,000
Pumping Structures	214,000	68,000
Pumping Equipment	1,274,000	854,000
Treatment Structures	0	30,000
Treatment Equipment	1,104,000	1,210,000
Reservoirs	0	915,000
Mains	2,807,900	2,582,200
Services	774,100	774,100
Fire Services	773,000	773,000
Meters	100,000	150,000
Fire Hydrants	536,600	541,600
Structures and Improvements	206,000	394,000
Office Equipment	210,200	177,700
Transportation Equipment	172,500	230,500
Communication Equipment	8,000	10,000
Tools and Equipment	37,100	47,000
<b>Total Capital Budget</b>	<b>\$8,292,400</b>	<b>\$8,997,100</b>
Less: Advances	650,000	650,000
Contributions	1,000,000	1,000,000
Developer Income Taxes	594,000	594,000
<b>Total Company Funds</b>	<b>\$6,048,400</b>	<b>\$6,753,100</b>
Less: Company Income Taxes	306,900	306,900
<b>Total Construction</b>	<b>\$5,741,500</b>	<b>\$6,446,200</b>

The Commission Advisory and Compliance Division (CACD) has reviewed the Application and San Gabriel's construction budget and concludes that the proposed financing is necessary for San Gabriel's construction requirements; 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 at March 31, 1992, recorded and at March 31, 1992, pro forma after giving effect to (a) the proposed issuance of \$7,000,000 principal amount of Series O Bonds; and (b) the repayment of short-term debt, are 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	\$17,236,300	36.6	\$24,236,300	49.1
Short-Term Debt	4,771,800	10.1	0	0
Common Stock Equity	25,102,700	53.3	25,102,700	50.9
Total	\$47,110,800	100.0	\$49,339,000	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 forecast for 1992 and 1993 are summarized as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>
Funds Needed for Construction Expenditures*	\$ 8,292,000	\$ 8,997,000
Long-Term Debt (Sinking Funds)	564,000	564,000
Fontana Union Settlement	6,113,000	0
Increase (Decrease) in Cash Reserve	( 188,000)	( 3,021,000)
Total	<u>\$14,781,000</u>	<u>\$ 6,540,000</u>
Less: Estimated Cash Available from Internal Sources	<u>5,537,000</u>	<u>4,293,000</u>
Additional New Funds Required from Outside Sources	\$ 9,244,000	\$ 2,247,000

\*includes advances for construction and contributions in aid of construction.

CACD has analyzed San Gabriel's cash requirements forecast for 1992 and 1993, shown in San Gabriel's supplemental data to the Application. CACD has concluded that internally generated funds will only provide \$5,537,000 or 37% of San Gabriel's cash requirements for 1992 and \$4,293,000 or 66% in 1993. After considering advances and contributions in aid of construction, San Gabriel projects it will need funds from external sources amounting to \$7,000,000 in 1992 and none in 1993.

CACD has reviewed the Application and has concluded that the proposed issuance of San Gabriel's Series O Bonds 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

San Gabriel proposes to use the \$7,000,000 for any or all of the following purposes: (1) to repay money borrowed on a short-term basis used for the construction and acquisition of additions and improvements to its water system; (2) to finance its

1992 capital budget; and (3) to reimburse its treasury for capital expenditures previously made.

San Gabriel estimates that its gross expenditures for utility plant, excluding expenditures on projects which may be covered by advances for construction and contributions in aid of construction, will amount to not less than \$6,048,000 for 1992, as summarized in Exhibit B attached to the Application. San Gabriel anticipates that additional short-term borrowing will be necessary this year to enable it to finance its 1992 capital construction program and it is from the proceeds of the Series O Bonds that this short-term borrowing will be reimbursed.

San Gabriel estimates its expense in connection with the issuance and sale of the Series O Bonds, including the fees of special counsel for the bond purchasers, 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 Series O Bonds.

CACD has reviewed San Gabriel's Application and its proposed sale of Series O Bonds and has concluded that the proposed financing is reasonable for the purposes set forth.

#### Findings of Fact

1. San Gabriel, a California corporation, is a water utility subject to the jurisdiction of this Commission.
2. San Gabriel has need for external funds for the purposes set forth in the Application.
3. The proposed issuance and sale of Series O Bonds is for proper purposes.
4. The execution of a New Supplement to Bank of America would not be adverse to the public interest.
5. San Gabriel has a valid claim for requesting exemption from the Competitive Bidding Rule for the Series O Bonds requested in the Application.



6. The money, property, or labor to be procured or paid for by the proposed Series O Bonds is reasonably required for the purposes specified in the Application.

7. There is no known opposition to this Application, and there is 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 issuance of Series O Bonds is for lawful purposes and the money, property, or labor to be obtained therefrom are required for these purposes. The proceeds from the security issue may not be charged to operating expenses or income.

4. San Gabriel should be granted exemption from the Competitive Bidding Rules because the proposed security issue does not exceed \$20,000,000.

5. The following order should be effective on the date of signature and payment of a fee of \$8,000 as set forth by § 1904(b) of the PU Code.

ORDER

IT IS ORDERED that:

1. San Gabriel Valley Water Company (San Gabriel), on or after the effective date of this order may, for the purposes set forth in the Application, issue and sell not exceeding \$7,000,000 principal amount of its First Mortgage Series "O", 9.58% Bonds (Series O Bonds), due 2022, to Transamerica Occidental Life Insurance Company and Transamerica Life Insurance and Annuity Company, at a price of 100% of the principal amount plus accrued interest in accordance with the commitments set forth in Exhibit D to the Application.

2. San Gabriel may, in conjunction with the issuance of the Series O Bonds, mortgage and encumber its properties to secure said Series O Bonds and to confirm the lien of the Trust Indenture dated as of September 1, 1945 with Bank of America National Trust and Savings Association (Bank of America) as Trustee, as supplemented and amended.

3. San Gabriel may execute and deliver to Bank of America the Twentieth Supplemental Trust Indenture in substantially the same form as set forth in Exhibit C to the Application.

4. San Gabriel's proposed issuance and sale of Series O Bonds is exempted from the requirements of the Commission's Competitive Bidding Rule.

5. San Gabriel shall file with the Commission Advisory and Compliance Division copies of the Twentieth Supplemental Indenture and any other security instruments not later than 15 days after the documents have been executed.

6. On or before the 25th day of each month, San Gabriel shall file the reports required by General Order Series 24.

7. The Application is granted as set forth above.

8. The authority granted by this order to issue the Series O Bonds will become effective when San Gabriel pays \$8,000, the fee set forth by Public Utilities Code § 1904(b).

This order is effective today.

Dated July 22, 1992 at San Francisco, California.

DANIEL Wm. FESSLER

President

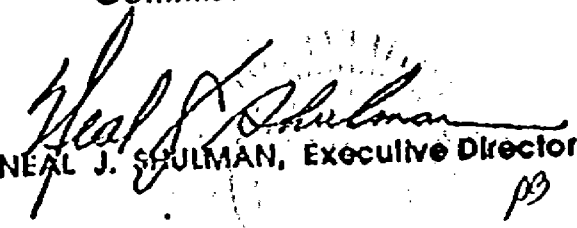
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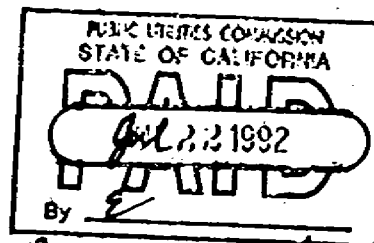
PATRICIA M. ECKERT

NORMAN D. SHUMWAY

Commissioners

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

  
NEAL J. SHULMAN, Executive Director



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