

ORIGINAL

Decision 82 02 032 FEB 17 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA)
WATER COMPANY to issue and sell)
its First Mortgage Bonds and/or)
its Term Notes, the sum of Bonds)
and/or Notes not exceeding)
\$12,000,000 principal amount and)
to execute and deliver Supplement-)
al Indenture(s) and/or Loan)
Agreement(s).)

Application 60903
(Filed September 15, 1981;
Petition for Modification
filed January 13, 1982)

SUPPLEMENTAL OPINION

By Decision (D.) 93729 dated November 13, 1981 in Application (A.) 60903, the Commission authorized Southern California Water Company (SoCal Water) to issue, sell, and deliver for cash, at one time or from time to time, up to \$12,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), and/or Term Notes. This sale was exempted from the Commission's competitive bidding rule for the purpose of permitting the sales through private placement or, alternatively, to issue and sell its New Bonds and/or Term Notes by means of a competitive offering.

In this petition for modification of D.93729, SoCal Water requests authority under Public Utilities (PU) Code Sections 816 through 818, 851, and 1708, to modify the interest terms from a fixed rate to a variable or fluctuating rate (based upon the bank

prime rates) in accordance with the terms and provisions of the proposed Term Loan Note shown as Exhibit A attached to the petition.

Notice of the filing of the petition for modification appeared on the Commission's Daily Calendar of January 18, 1982. No protests have been received.

SoCal Water believes and alleges that the modification sought is justified by the following facts:

1. At the time SoCal Water filed A.60903, its preliminary discussions with potential purchasers of New Bonds and lenders under Term Notes appeared to it to indicate that the New Bonds or Term Notes would bear interest at a fixed rate. Since that time and issuance of D.93729, SoCal Water has engaged in further negotiations for term loans from banks upon favorable terms and conditions which would include interest at a fluctuating rate in accordance with the formula set forth in Exhibit A.
2. Other terms proposed in SoCal Water's negotiations are that the loans would be for a term of five years, that the loan could be repaid without penalty or premium in part (in installments of not less than \$500,000 or multiples thereof) or in whole and be subject to conditions set forth in the form of loan agreement attached to A.60903 as Exhibit E.

SoCal Water alleges that incurring term indebtedness on the basis just described, including interest at a fluctuating rate, would provide it with a lower cost of money over the term of the borrowing than would result from indebtedness bearing interest at this time at a fixed rate. It seems probable that this change could produce a lower cost of money.

SoCal Water believes that it is in its best interest to have the authority to enter either into term indebtedness bearing interest at a fixed rate or a fluctuating interest-bearing rate. It has advised the Commission that negotiations, since issuance of D.93729, have involved terms it believes favorable and which include interest at a fluctuating rate based upon bank prime rate.

In its letter dated January 22, 1982 to the Commission, SoCal Water bases its belief on the following:

"In August and September, 1981, Southern California Water Company negotiated with its two banks (Harris Bank of Chicago and First Interstate Bank of Los Angeles) regarding an interest rate and other factors on a term note and term note agreement. The banks quoted a rate of 17.25% at that time; this was when the prime rate was between 17.5% and 18%. Although the application to the Public Utilities Commission was filed on September 9, 1981, the Company continued to negotiate with the banks with the

thought of securing the lowest possible rate. It then appeared that the prime rate would decrease probably to 15% sometime in 1982. With the prospect of a 17.25% fixed rate vs. the floating rate of 15%, the Company decided to ask for a floating rate type of term loan. At that time, some economists even predicted a rate lower than the 15%."

"Using an average of 15.25% vs. the fixed rate of 17.25% on term loans of \$6,000,000 for three years, there would be a difference (savings) of \$120,000 a year or \$360,000 over a three year period."

Since the issue and sale of the proposed term indebtedness at a variable interest rate might result in a lower cost of money over the term of the borrowing than would result if the term indebtedness were sold at this time at a fixed rate, and since the utility would have a right to prepay fluctuating rate indebtedness at any time without penalty, the Revenue Requirements Division recommends that SoCal Water's petition should be granted.

Under the circumstances, the Commission finds that SoCal Water's request is reasonable and would not be adverse to the public interest. A public hearing is not necessary. The Commission concludes that SoCal Water's request should be granted.

The following supplemental order should be effective on date of signature to enable SoCal Water to issue its debt securities expeditiously.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

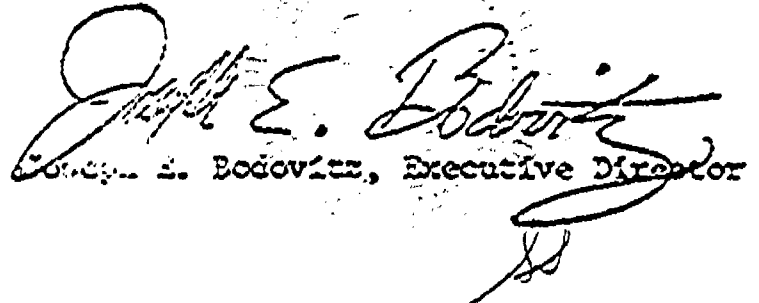
1. Southern California Water Company is authorized to modify D.93729 dated November 13, 1981, to enter into term indebtedness bearing interest at a variable or fluctuating interest rate as set forth in its petition for modification of D.93729.
2. In all other respects, D.93729 shall remain in full force and effect.

This order is effective today.

Dated FEB 17 1982 at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
FRASCILLA C. CREW
Commissioners

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


George S. Bodovitz, Executive Director