

ORIGINALDecision 83 06 003 JUN 1 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of VALENCIA WATER)
COMPANY to issue and/or to assume)
the obligation to repay, notes in) Application 83-04-06
the aggregate principal amount of) (Filed April 4, 1983)
\$2,300,000.)

O P I N I O N

Valencia Water Company (Valencia) requests authority, under Public Utilities (PU) Code Sections 818 and 830, for the following:

1. To issue, sell, and deliver its promissory note (Note) in the aggregate principal amount of \$1,300,000 to its parent, The Newhall Land & Farming Company (Newhall Land). The Note will be in substantially the same form as Exhibit D attached to the application and,
2. Upon receipt of \$1,000,000 from Newhall Land, to assume Newhall's obligation to repay its Term Note (Crocker Note) in favor of Crocker National Bank (Crocker) and to enter into an Assumption Agreement between Valencia and Newhall Land as shown in Exhibit C attached to the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of April 5, 1983. No protests have been received.

Valencia, a California corporation and a wholly owned subsidiary of Newhall Land, operates as a public utility under the jurisdiction of this Commission. Valencia is engaged in the sale

and distribution of water to about 6500 customers in and around the community of Valencia in the County of Los Angeles.

For the 11-month period ending November 30, 1982, Valencia reports it generated operating revenues of \$1,278,553 and a net income of \$162,188 shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A is Valencia's Balance Sheet as of November 30, 1982 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$7,317,152
Current Assets	238,580
Deferred Charges	<u>30,217</u>
Total	\$7,585,949
<u>Liabilities and Equity</u>	
Common Equity	\$2,870,990
Long-Term Debt	1,550,000
Current and Accrued Liabilites	199,087
Contributions and Advances for Construction	2,791,428
Deferred Credits	<u>174,444</u>
Total	\$7,585,949

Valencia proposes to issue, sell, and deliver its Note, in favor of Newhall Land, in the aggregate principal amount of \$1,300,000. The Note to Newhall Land shall be for a term of five years, bear interest at the rate of 12.91% per annum, payable quarterly, with no payment of any principal amount due or payable

until the maturity of the Note. The Note to Newhall Land can be prepaid at any time without penalty. The Note shall be executed in the form substantially the same as that which is attached to the application as Exhibit D.

Newhall Land has borrowed \$1,000,000 from Crocker on a Term Note (Crocker Note) dated January 10, 1983. Valencia and Newhall Land have entered into an Assumption Agreement (Exhibit B) under the terms of which Valencia will assume the obligation to repay the Crocker Note and Newhall Land will pay to Valencia the \$1,000,000 principal amount of the money received from Crocker. Newhall Land would continue to guaranty the repayment of the Crocker Note under a Continuing Guaranty a copy of which is attached to the application. Any interest due on the Crocker Note from the date of its issuance until its assumption by Valencia will be the obligation of Newhall Land.

The Crocker Note to be assumed by Valencia is for a term of five years, bears interest at the rate of 12.91% per annum, payable quarterly, with no payment of any principal amount due or payable until maturity of the Crocker Note. The balance of the terms of the Crocker Note are set forth in a Term Loan Agreement attached to the application as Exhibit B. The Crocker Note shall be substantially in the form attached to the Term Loan Agreement as Exhibit A.

Use of Proceeds

Valencia proposes to use the proceeds from the sale of its Note to Newhall Land and the proceeds received due to its assumption of the Crocker Note for the following purposes:

1. To retire and discharge Valencia's indebtedness in the amount of \$1,550,000 to its parent, Newhall Land;
 2. To pay for the construction, completion, extension, and improvement of Valencia's facilities;
 3. To improve Valencia's services; and
 4. To reimburse Valencia's treasury as provided by PU Code Section 817(h)
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As of December 31, 1982, Valencia was indebted to Newhall Land in the amount of \$1,550,000 under a 16% Note authorized by Decision 82-03-56 dated March 16, 1982 in Application 82-01-53. An additional \$100,000 in short-term funds has been provided by Newhall Land that Valencia wishes to repay. The proceeds received from Newhall Land were used to pay for the construction, completion, extension, and improvement of Valencia's facilities and to make necessary improvements to service facilities.

Valencia's capital ratios as of November 30, 1982 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	<u>November 30, 1982</u>	<u>Pro Forma</u>
Long-Term Debt	34.3%	44.5%
Short-Term Debt	2.2	0
Total Debt	<u>36.5</u>	<u>44.5</u>
Common Equity	63.5	55.5
Total Equity	<u>100.0%</u>	<u>100.0%</u>

1. The proposed issuance and sale of Valencia's Note to Newhall Land in the aggregate principal amount of \$1,300,000;
2. The receipt of \$1,000,000 from Newhall Land, Valencia's parent, who will loan Valencia the proceeds from its Crocker Note under a Term Loan Agreement and Valencia's Assumption Agreement guarantying repayment of the loan;
3. The retirement of the present Newhall Land Note of \$1,550,000 bearing interest at 16% per annum (Decision 82-03-056 dated March 16, 1982 in Application 82-01-53); and
4. The repayment of the current short-term loan of \$100,000 also from Newhall Land.

The application states that Valencia has used all of the \$1,650,000 in long-term and short-term funds borrowed by it from Newhall Land for construction, completion, extension, or improvements of its facilities and, over the next three years, will need an additional \$650,000 for the construction, completion, extension or improvement of its facilities, or to improve its services. Valencia's attorney, by letter dated April 28, 1983,

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informed the Commission's Revenue Requirements Division that Valencia also proposes to use the balance of the proceeds which are over and above those required for refunding the present outstanding obligations and for capital additions, to reimburse its treasury as provided by PU Code Section 817(h). At February 28, 1983, Valencia had unreimbursed construction expenditures of about \$1,280,000. ✓

The Commission's Revenue Requirements and Utilities Divisions have reviewed the application and have concluded that the proposed financings are necessary to help Valencia meet its cash requirements. The Divisions reserve the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

Findings of Fact

1. Valencia, a California corporation and a wholly owned subsidiary of Newhall Land, operates as a public utility under the jurisdiction of this Commission.
2. Valencia has need for external funds for the purposes specified in the application and in its attorney's letter dated April 28, 1983. ✓
3. The issuance and sale of Valencia's proposed Note and the proposed loan from Newhall Land would be for proper purposes.

4. The money, property, or labor to be procured or paid for by the sale of Valencia's proposed Note and the loan from Newhall Land is reasonably required for these purposes.

5. The execution of an Assumption Agreement by Valencia to guaranty the Crocker Note between Newhall Land and Crocker would not be adverse to the public interest.

6. There is no known opposition to this proceeding 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.

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

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable Valencia to proceed with its financings expeditiously.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order and on or before December 31, 1983, Valencia Water Company (Valencia) may issue, sell, and deliver its promissory note (Note), in favor of The Newhall Land and Farming Company, in the aggregate principal amount of \$1,300,000, which Note shall be in substantially the same form as Exhibit D attached to the application.

2. On or after the effective date of this order and on or before December 31, 1983, Valencia may execute the Assumption Agreement in substantially the same form attached as a part of Exhibit B of the application and assume the Crocker Note, in the aggregate principal amount of \$1,000,000. This Crocker Note shall be in substantially the same form as Exhibit A to Exhibit B attached to the application.

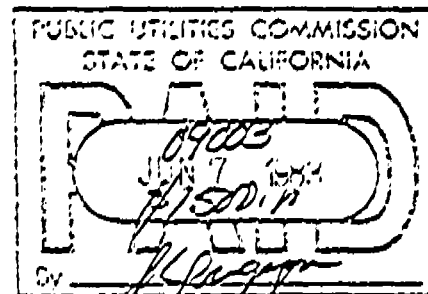
3. Valencia shall apply the proceeds from this sale and assumption of the proposed notes to the purposes specified in the application and in the attorney's letter dated April 28, 1983 to the Commission's Revenue Requirements Division. | ✓

4. Valencia shall file the reports required by General Order Series 24.

5. The authority granted by this order to issue and guaranty notes will be effective when Valencia pays \$1,500, the fee set by PU Code Section 1904(b) after taking a \$1,550,000 credit for the retirement of the note issued in regard to Decision 82-03-056 dated March 16, 1982. In all other respects this order becomes effective today.

Dated JUN 1 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners



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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director