

RR/KLH/SR/WPSC

ORIGINAL

Decision 83 08 062 AUG 17 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA)	
WATER COMPANY to issue and sell)	Application 83-07-20
not exceeding \$6,000,000 principal)	(Filed July 11, 1983;
amount of its 11-3/4% Term Notes)	amended July 18, 1983)
due 1993 and to execute and)	
deliver Term Note Agreement.)	

O P I N I O N

Southern California Water Company (SoCal Water) requests authority under Public Utilities (PU) Code Sections 818 and 851, for the following:

1. To issue and sell, in one or more series, up to \$6,000,000 aggregate principal amount of its 11-3/4% 10-year Term Note (Term Note) by means of private placement to a single institutional investor;
2. To execute and deliver a Term Note Agreement (Agreement); and
3. To have the Term Note exempted from the Commission's competitive bidding requirements.

Summary of Decision

This decision grants SoCal Water the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendars of July 14 and July 20, 1983. No protests have been received.

SoCal Water, a California corporation, operates as a public water utility under the jurisdiction of this Commission. SoCal provides water service to customers in portions of 11 California Counties and electric service in the vicinity of Big Bear Lake in San Bernardino County.

For the 12 months ended March 31, 1983, SoCal Water reports in its Condensed Statement of Income, attached to the application as part of Exhibit A, that it generated total operating revenues of \$47,518,000 and net income of \$4,468,000.

Also shown as part of Exhibit A is SoCal Water's Balance Sheet as of March 31, 1983 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$134,428,000
Investments	575,000
Current Assets	9,126,000
Deferred Charges	<u>793,000</u>
Total	\$144,922,000
<u>Liabilities and Equity</u>	
Common Equity	\$ 32,120,000
Preferred Stock	11,190,000
Long-Term Debt	43,383,000
Current Liabilities	16,517,000
Other Credits	<u>41,712,000</u>
Total	\$144,922,000

SoCal Water proposes to issue and sell in one or more series, its Term Note, in the aggregate principal amount of up to \$6,000,000, on or before September 1, 1983, by means of a private

placement. The Term Note is to be issued in accordance with the terms and conditions as set forth in the Agreement dated August 1, 1983. The Agreement sets forth, among other things, the aggregate principal amount, interest rate, and the maturity date of the Term Note. SoCal Water plans to place the Term Note privately with an institutional investor.

The Term Note will be sold for cash at 100% of par value, plus accrued interest from the date of issuance, and will bear an 11-3/4% interest rate. The Term Note will mature in 1993 and will be redeemable after six years at the option of SoCal Water. The redemption would be subject to certain restrictions (described below).

The Term Note will not be subject to redemption until 1989. On or after 1989, the redemption price will be equal to the principal amount plus a premium, decreasing each 12 months to 100% of the principal amount in 1993.

The Term Note will not be redeemable if the redemption is for the purpose of, or in anticipation of, refunding them by the application of funds, directly or indirectly, borrowed by SoCal Water at an annual cost of money less than that of the Term Note. A similar restrictive redemption provision has been applicable to SoCal Water's past issues of debt securities.

SoCal Water alleges that present and anticipated market conditions, where it must secure its funds, are no more favorable for marketing Term Notes without the inclusion of the six-year non-redemption feature than they were at the time the last debt securities were issued. SoCal Water believes that the elimination of the non-refunding provision would require a higher rate of interest, or other concessions, resulting in a higher annual cost of money on the Term Note and would tend to limit the market among institutional investors.

Request for Exemption from Competitive Bidding

SoCal Water requests an exemption from the Commission's competitive bidding rule for the sale of its \$6,000,000 Term Note by means of a negotiated private placement. These rules were established by Commission Decision (D.)38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556, and D.81908 which generally require California Public Utilities to obtain competitive bids for the purchase of their debt securities.

In D.91984 dated July 2, 1980 in Application (A.)59633 for San Diego Gas & Electric Company, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by

a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

The application indicates that SoCal Water's management believes, based on information received from its financial advisers, that the sale of the \$6,000,000 Term Note by private placement rather than through competitive bidding may enable the utility to obtain a more favorable interest rate. Among other things, a private placement should enable SoCal Water to tailor the maturity schedule of its Term Note to the preference of institutional purchasers in exchange for more favorable terms than would otherwise be available if financed through competitive bidding.

We are frankly uncertain whether under current volatile conditions, unfavorable to the issuer of corporate debt, strict adherence to the competitive bidding rule would prove beneficial. Consequently, for this application only, we will authorize SoCal Water to proceed on either a private placement basis or by competitive bidding, according to SoCal Water's estimation of where the most favorable opportunity lies.

The Commission's Revenue Requirements Division has reviewed SoCal Water's request and has concluded that an exemption from the Commission's competitive bidding rule should be granted

and, alternatively, to grant authority to issue the Term Note under competitive bidding.

If SoCal Water chooses to issue and sell its Term Notes by means of a private placement, we place it on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require SoCal Water to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of its Term Notes.

Use of Proceeds

The principal purpose of issuing the Term Note is for the discharge of SoCal Water's short-term debt obligations. These obligations are in the form of unsecured bank loans from three banks with interest rate at or below prime floating and requiring compensation balances equal to 5% of the commitment. The commitment is currently \$11,000,000 divided among First Interstate Bank of Los Angeles, Mitsubishi Bank of Los Angeles, and Harris Bank of

Chicago, with balances totaling \$8,100,000 outstanding as of March 31, 1983. These obligations were incurred to finance certain of SoCal Water's capital expenditures for the acquisition of property for the construction, completion, extension, or improvement of SoCal Water's facilities.

SoCal Water's capital ratios reported as of December 31, 1982 are shown below as recorded and adjusted to give pro forma effect to the proposed issuance and sale of SoCal Water's \$6,000,000 Term Note as follows:

	<u>December 31, 1982</u>	<u>Pro Forma</u>
Long-Term Debt	48.1%	50.3%
Short-Term Debt	<u>5.4</u>	<u>5.1</u>
Total Debt	53.4	55.4
Preferred Stock	12.2	11.3
Common Equity	<u>34.3</u>	<u>33.3</u>
Total	100.0%	100.0%

SoCal Water's capital budget for the year 1982 recorded and 1983 estimated are summarized as follows:

	<u>1983 Recorded</u>	<u>1983 Estimated</u>
<u>Water</u>		
General (Water Supply, Distribution Plant, etc.)	\$6,059,000	\$4,695,000
New Business	2,271,000	3,091,000
Blankets (Meters, Services, etc.)	<u>1,492,000</u>	<u>1,491,000</u>
	\$9,822,000	\$9,277,000
Less: Advances and Contributions	<u>2,135,000</u>	<u>2,902,000</u>
Total Water	\$7,687,000	\$6,375,000
Electric - Net of Advances	<u>594,000</u>	<u>597,000</u>
Net Water and Electric	\$8,281,000	\$6,972,000

The Commission's Revenue Requirements Division has reviewed SoCal Water's construction budget for 1982 and 1983 and find that the sale of SoCal Water's Term Note is necessary to fund the planned construction expenditures. The Division is not finding that the construction is necessary and reasonable or that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Commission's Revenue Requirements Division has analyzed the statement of financial position attached to SoCal Water's application as Exhibit A. The Division determined that cash generated from internal sources will provide 39% of the capital requirements estimated for 1983.

Findings of Fact

1. SoCal Water, a California corporation, operates as a public water utility under the jurisdiction of this Commission.
2. The proceeds from the sale of the proposed Term Note would be for proper purposes.
3. SoCal Water has need for external funds for the purposes set forth in the application.
4. The proposed redemption provisions are reasonable.
5. The sale of the proposed Term Note should not be required to be through competitive bidding.
6. The proposed Term Note Agreement would not be adverse to the public interest.
7. The money, property, or labor to be procured or paid for by the proposed Term Note is reasonably required for the purposes specified in the application.
8. There is no known opposition to the application and no reasons 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 issue is for lawful purposes and the money, property, or labor to be obtained by it 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 to enable SoCal Water to issue its Term Note expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company (SoCal Water), on or after the effective date of this order and on or before December 31, 1983, may issue, sell, and deliver for cash, at one time or from time to time, up to \$6,000,000 aggregate principal amount of its 11-3/4% Term Note, in one or more series, upon terms and conditions substantially consistent with those set forth in, or contemplated, in the application.
2. SoCal Water may execute and deliver a Term Note Agreement having substantially similar terms and conditions as those shown in Exhibit D attached to the application.

3. Sales by SoCal Water of its Term Note in the aggregate principal amount up to \$6,000,000 is exempted from the Commission's competitive bidding rule for the purpose of permitting these sales by private placement; alternatively, SoCal Water may issue and sell its Term Note by means of competitive bidding.

4. SoCal Water shall file a copy of the Term Note Agreement and a written report within 30 days of each and every sale, with the Commission, showing the terms and conditions of the Term Note and fees incurred.

5. If the Term Note is sold by competitive bidding, as soon as available, SoCal Water shall file, with the Commission, three copies of its final prospectus relating to the issuance of the debt security.

6. SoCal Water shall apply the net proceeds from the sale of Term Note to the purposes set forth in the application.

7. If the Term Note is sold by a private placement, within 30 days after their issuance and sale, SoCal Water shall file, with the Commission, a report setting forth the reason the company believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

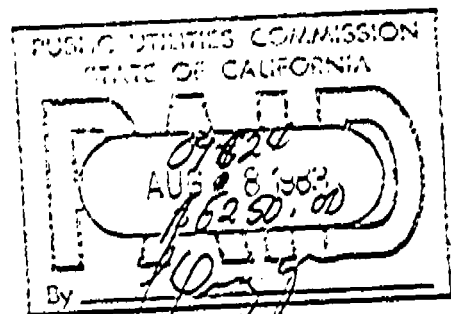
8. SoCal Water shall file the reports required by General Order Series 24.

9. The authority granted by this order to issue and sell a Term Note will become effective when SoCal Water pays \$7,000, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

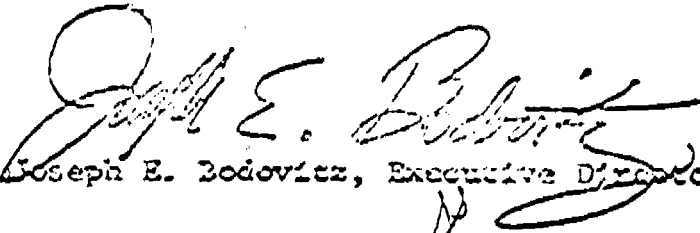
Dated AUG 17 1983, at San Francisco, California.

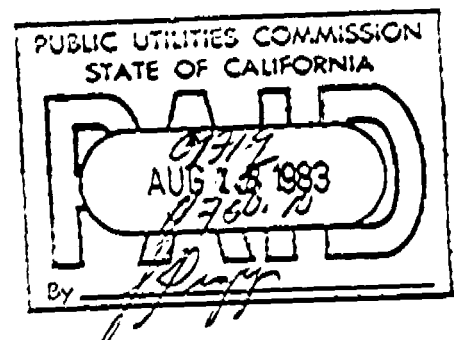
VICTOR CALVO
FRISCILLA C. CREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Leonard M. Grimes, Jr.,
being necessarily absent, did not
participate.



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


Joseph E. Bodovitz, Executive Director



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