

ORIGINAL

Decision 84 01 041 JAN 19 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )  
WATER COMPANY for authority to )  
issue and sell not exceeding 30,000 )  
shares of its \$100 Preferred )  
Shares, 10.375% Series )

Application 83-11-37  
(Filed November 17, 1983)

O P I N I O N

Southern California Water Company (SoCal Water) requests authority under Public Utilities (PU) Code Sections 816 through 830, to issue, sell and deliver by private placement, not exceeding 30,000 shares of its \$100 Preferred Shares, 10.375% Series (Preferred Shares), to produce aggregate proceeds from such securities of \$3,000,000.

Summary of Decision

Notice of the filing of the application appeared on the Commission's Daily Calendar of November 21, 1983. No protests have been received.

SoCal Water, a California Corporation, operates as a public utility water company under the jurisdiction of this Commission. SoCal Water 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, California.

Based on SoCal Water's Condensed Statement of Income for the 12 months ended September 30, 1983, attached as Exhibit A to the application, the utility generated total operating revenues of \$50,527,000 and net income of \$4,880,000.

SoCal Water's Balance Sheet as of September 30, 1983, also shown as a part of Exhibit A is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$138,247,000
Investments	598,000
Current Assets	13,507,000
Deferred Charges	<u>619,000</u>
Total	\$152,971,000
 <u>Liabilities and Equity</u>	
Common Stock Equity	\$ 32,663,000
Preferred Stock	11,190,000
Long-Term Debt	49,034,000
Current Liabilities	14,855,000
Other Credits	<u>45,229,000</u>
Total	\$152,971,000

By this application, SoCal Water seeks authority for financing of \$3,000,000 of preferred stock. SoCal Water proposes to issue and sell 30,000 of its Preferred Shares, by means of private placement for cash at \$100 per share. The Preferred Shares would be subject to an eight-year restricted redemption at premiums declining from \$10.38 per share to zero in the 15th year.

Commencing in the sixth year the Preferred Shares will be subject to an annual sinking fund of 10% or 3,000 shares at par. SoCal Water plans to sell the Preferred Shares privately to a single institutional investor.

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

SoCal Water believes that the elimination of the non-refunding provision pertaining to the Preferred Shares would require a higher rate, or other concessions, resulting in a higher annual cost of money and would tend to limit the market among institutional investors.

We will require SoCal Water to provide us with a showing of why the utility believes that the resulting dividend rate and the cost of money pertaining to the proposed issue of Preferred Shares was 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 the Preferred Shares.

SoCal Water proposes to use the net proceeds from the sale of the Preferred Shares to reimburse SoCal Water's treasury, for money spent on the utility's construction program and to repay outstanding short-term bank loans.

SoCal Water's capital ratios recorded as of September 30, 1983 and adjusted to give effect to the proposed issuance of the Preferred Shares assuming the sale is at \$100 per share are summarized as follows:

<u>Component</u>	<u>September 30, 1983</u>	<u>Pro Forma</u>
Long-Term Debt	50.5%	50.5
Short-Term Debt	<u>5.1</u>	<u>2.1</u>
Total Debt	55.6	52.6
Preferred Stock	11.5	14.5
Common Stock Equity	<u>32.9</u>	<u>32.9</u>
Total	100.0%	100.0%

SoCal Water's capital expenditures for the 1984 calendar year as budgeted is summarized as follows:

<u>Component</u>	<u>1984 Budgeted</u>
General (Water Supply Distribution Plant, Etc.)	\$ 5,158,400
New Business	3,892,600
Blankets (Meters, Services, Etc.)	<u>1,379,200</u>
Subtotal	\$ 10,430,200
Less: Water Advances and Contributions	3,777,100
Total Water	\$ 6,653,100
Electric-Net of Advances	<u>626,900</u>
Total Water and Electric	\$ 7,280,000

SoCal Water determined that cash generated from internal sources provided approximately 47% of the funds used for construction expenditures for the 9 months ended September 30, 1983.

The Commission's Revenue Requirements Division has reviewed SoCal Water's construction budget and finds that additional external funds are necessary to fund the planned construction expenditures. The Commission is not finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. SoCal Water, a California corporation, operates under the jurisdiction of this Commission.
2. The proceeds from the sale of the proposed Preferred Shares would be for proper purposes.
3. SoCal Water has need for external funds for the purposes set forth in the application.
4. The proposed restricted redemption provisions are reasonable.
5. The proposed issuance of the Preferred Shares is not adverse to the public interest.

6. The money, property, or labor to be procured or paid for by the proposed Preferred Shares is reasonably required for the purposes specified in the application.

7. 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.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue 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 1904.1 to enable SoCal Water to issue its Preferred Shares 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 June 30, 1984, may issue, sell, and deliver for cash, not exceeding 30,000 shares of its \$100 Preferred Shares, 10.375% Series, which would produce aggregate proceeds not to exceed \$3,000,000.

2. SoCal Water shall apply the net proceeds from the sale of the Preferred Shares for the purposes set forth in the application.

3. Within 30 days after the issuance and sale of any portion of its Preferred Shares, SoCal Water shall file with the Commission a report showing why the resulting dividend rate and cost of money was the most advantageous to the company and its ratepayers.

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

5. The authority granted by this order will become effective when SoCal Water pays \$4,000, the fee set by Public Utilities Code Section 1904.1. In all other respects, this order is effective today.

Dated JAN 19 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.  
President

VICTOR CALVO  
PRISCILLA C. GREW  
DONALD VIAL  
WILLIAM T. BAGLEY  
Commissioners

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

  
Joseph E. Bodovitz, Executive Director

