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Decision No. 88430 JAN 31 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application)
of SOUTHWEST SUBURBAN WATER, a)
California corporation, to execute)
an Eleventh Supplemental Trust)
Indenture and to issue \$3,000,000)
principal amount of First)
Mortgage Bonds.)

Application No. 57732
(Filed December 7, 1977)

O P I N I O N

Southwest Suburban Water (Southwest Suburban) requests authorization from the Commission (a) to issue and sell \$3,000,000 aggregate principal amount of its Series H 8-5/8% First Mortgage Bonds due July 31, 1998, (b) to execute and deliver an Eleventh Supplemental Trust Indenture, and (c) to execute and deliver a Purchase Agreement.

Southwest Suburban is a California corporation furnishing public utility water service to approximately 60,100 general metered customers in the Counties of Los Angeles, Orange and San Bernardino. The company is a wholly-owned subsidiary of Southwest Water Company (Southwest) which acquired all of Southwest Suburban's outstanding capital stock pursuant to authority granted by the Commission in Decision No. 84466 dated May 28, 1975 in Application No. 55655. By Decision No. 86063 dated July 7, 1976 in Application No. 56529, Southwest was authorized to transfer its public utility water systems to Southwest Suburban, and the parent company was relieved of its public utility obligations.

For the ten months ended October 31, 1977, Southwest Suburban reported operating revenues of \$6,517,900, depreciation

expenses totalling \$563,941 and net income of \$388,504. Exhibit E attached to the application contains a balance sheet dated October 31, 1977 which is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net utility plant	\$25,995,522
Investments	2,392,668
Current assets	2,999,829
Other assets	619,330
Total	<u>\$32,007,349</u>
 <u>Liabilities and Capital</u>	
Long-term debt	\$ 8,636,000
Preferred stock	3,982,267
Common stock equity	8,410,227
Advances for construction	4,315,861
Contributions in aid of construction	2,675,423
Deferred income taxes	624,267
Current liabilities	2,849,164
Other liabilities	514,140
Total	<u>\$32,007,349</u>

Under the terms of a private placement arranged by Kidder, Peabody & Co., Incorporated, Southwest Suburban proposes to issue and sell \$3,000,000 aggregate principal amount of its First Mortgage Series H 8-5/8% Bonds due July 31, 1998. The bonds would be secured by an Indenture as previously supplemented and a proposed Eleventh Supplemental Trust Indenture which is required in order to create the new series and to further secure the payment of principal on all bonds outstanding. The bonds would be subject to a ten-year restricted redemption provision and sinking fund payments of \$175,000 annually would be required commencing July 31, 1983. Southwest Suburban also proposes to execute a Purchase Agreement with the prospective buyers consisting of two insurance companies as follows:

<u>Company</u>	<u>Amount</u>
Nationwide Life Insurance Company	\$2,000,000
American United Life Insurance Company	1,000,000
Total	<u>\$3,000,000</u>

Proceeds derived from the sale, which is tentatively scheduled in July 1978, would be used for the following purposes:

<u>August 1, 1978 to December 31, 1978</u>	<u>Amount</u>
Retirement of Series E 5-3/4% Bonds due July 1, 1979	\$1,034,000
Repayment of short-term construction loans	600,000
Plant additions and betterments	268,000

<u>Year 1979</u>	
Plant additions and betterments	\$ 857,000
Contingency for additional capital expenditures related to Safe Drinking Water Bond Act	<u>241,000</u>
Total	<u>\$3,000,000</u>

Pending full use of the bond proceeds for the purposes specified, the company plans to invest the unexpended balance in interest bearing short-term securities. The Original Indenture requires that Southwest Suburban's net income, as defined therein, must be equal to at least two times one year's interest charges on all First Mortgage Bonds and 1.75 times one-year's interest charges on all indebtedness. This requirement would be eliminated in the Eleventh Supplemental Trust Indenture with regard to the Series H Bonds only, and the bondholders would execute a waiver consenting to the sale of the Series H Bonds.

Southwest Suburban's capitalization as of October 31, 1977 and as adjusted to give effect to the proposed bond issue is summarized as follows:

<u>Capitalization</u>	<u>October 31, 1977</u>		<u>Adjusted</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Long-term debt	\$ 8,636,000	41.06%	\$10,580,000	46.06%
Preferred stock	3,982,267	18.94	3,982,267	17.34
Common equity	8,410,227	40.00	8,410,000	36.30
Total	<u>\$21,028,494</u>	<u>100.00%</u>	<u>\$22,972,267</u>	<u>100.00%</u>

In support of the application, Southwest Suburban states that private placement under market conditions existing toward the end of 1977 offered an opportunity to sell long-term debt at a more favorable interest rate and on better terms that might otherwise be available in July 1978. Except for a placement fee of \$50,000, the present commitment to purchase the 8-5/8% Series H Bonds in July 1978 does not require additional payments in the form of standby or loan fees. Upon completion of the sale, Southwest Suburban anticipates that its capital requirements would be satisfied through 1979, and an immediate need to refinance maturing long-term debt issues would be eliminated because none would be due prior to 1993. The company further asserts that short-term loans through July 1978 would be available at lower interest rates in anticipation of the proposed bond sale and that thereafter, the need for borrowing short-term money at interest rates above 8-5/8% would be substantially reduced.

The Operations Division's review of Southwest Suburban's capital budgets for 1978 and 1979 indicate that the major portion of planned expenditures relate to lowering well depths and improving the water system to meet Department of Health requirements. The Operations Division concludes that the budget estimates are

reasonable; such conclusion should not, however, preclude a further determination of the reasonableness of construction expenditures in any future rate proceeding.

The Finance Division observes that interest rates are again moving upward as indicated by recent increases in the prime rate and the discount rate to respective levels of 8% and 6-1/2%; moreover, Aa-rated bonds which are of higher quality than those of Southwest Suburban are now yielding close to 8.8% compared to the 8.625% rate negotiated for the proposed Series H issue. These factors, coupled with the favorable effect on the company's cash flow through 1979, leads to the Finance Division's conclusion that the terms of the financing are reasonable.

After consideration the Commission finds that:

1. The proposed bond issue is for proper purposes.
2. The ten-year restriction on redemption of the proposed note results in a lower interest cost than would otherwise be incurred by the applicant in the absence of such a provision.
3. The proposed Eleventh Supplemental Trust Indenture and the proposed Purchase Agreement is not adverse to the public interest.
4. The money, property or labor to be procured or paid for by the bonds herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and there is no reason to delay granting the authority requested. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The authorization

herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Southwest Suburban Water may issue and sell its First Mortgage Series H 8-5/8% Bonds due July 31, 1998 in an aggregate principal amount not exceeding \$3,000,000.

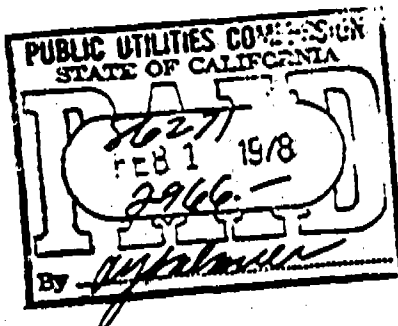
2. Southwest Suburban Water may execute and deliver an Eleventh Supplemental Trust Indenture and a Purchase Agreement substantially in the forms attached to the application as Exhibits A and B, respectively.

3. Southwest Suburban Water shall apply the proceeds from the sale of said bonds to the purposes specified in the application.

4. Southwest Suburban Water shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. This order shall become effective when Southwest Suburban Water has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,966.

Dated at San Diego, California, this 31st day of JANUARY, 1978.



Robert B. Babin
President

Richard D. Howell
Vernon L. Sturgeon
Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.