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Decision No. S1034 NOV 20 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA)
 WATER COMPANY for authority to issue)
 and sell not exceeding \$4,000,000)
 aggregate principal amount of its)
 First Mortgage Bonds, 10% Series)
 due 2004, and to execute and deliver)
 a Supplemental Indenture.)

Application No. 59216
(Filed October 18, 1979)

O P I N I O N

Southern California Water Company (SoCal Water) requests authority (a) to issue and sell by private placement not exceeding \$4,000,000 aggregate principal amount of its First Mortgage Bonds, 10% Series, due 2004, and (b) to execute and deliver a Supplemental Indenture.

SoCal Water requests this authority pursuant to Sections 818 and 851 of the Public Utilities Code. Notice of the filing of the application was published on the Commission's Daily Calendar of October 19, 1979.

SoCal Water, a California corporation, is a public utility engaged in the sale and distribution of water in various areas in eleven counties of California. The company also renders electric service in the vicinity of Big Bear Lake in San Bernardino County. For the 12 months ended August 31, 1979, the utility generated total operating revenues and net income of \$31,196,774 and \$3,159,414 respectively.

SoCal Water proposes to issue and sell \$4,000,000 principal amount of its First Mortgage 10% bonds to mature December 1, 2004. The bonds would be secured by a Supplemental Indenture substantially in the same form as that attached to the application as Exhibit A to Exhibit C, dated November 15, 1979. The bonds would

be subject to a ten-year restricted redemption provision and annual sinking fund payments of \$168,000 beginning November 30, 1985.

According to the Commission's Competitive Bidding Rule, as most recently promulgated by Decision No. 81908, dated September 25, 1973, in Case No. 4761, competitive bidding is not required for debt security issues of \$5,000,000 or less.

SoCal Water has tentative commitments from three institutional investors for the purchase of the First Mortgage Bonds at 100% of their principal amount, namely \$4,000,000 as follows:

<u>Name</u>	<u>Amount</u>
American United Life Insurance Company	\$2,000,000
Woodmen Accident and Life Company	1,000,000
Equitable of Iowa Companies	<u>1,000,000</u>
Total	<u>\$4,000,000</u>

In support of the application, SoCal Water states that the proposed interest rate of 10% is reasonable for a private placement in light of market conditions prevailing at the time of negotiation of the sale; moreover, sale of the First Mortgage Bonds would have been extremely difficult without ten-year refunding protection, which tended to lower the interest rate below that required for a shorter period of refunding protection.

SoCal Water will not execute any underwriting agreements relating to the First Mortgage Bonds but proposes to pay a commission (estimated not to exceed \$30,000) to Dean Witter Reynolds, Inc. and Kirkpatrick, Pettis, Smith, Polian, Inc. Net proceeds would be used to reimburse SoCal Water's treasury for money spent during 1978 and 1979 in its construction program. The amount so reimbursed will be used to repay short-term bank borrowings incurred to finance the construction program.

SoCal Water's short-term indebtedness as of August 31, 1979, was \$9,000,000 with all proceeds having been spent for capital purposes. The repayment of outstanding short-term bank loans bearing an interest rate of 11.75% with funds obtained from the sale of securities having an interest rate of 10%, as contemplated by the utility, would be in the best interest of the company and its consumers.

SoCal Water's capitalization ratios as of August 31, 1979, as adjusted to reflect the proposed issuance of \$3,000,000 of Preferred Shares, 9.25% Series;^{1/} issuance of the \$4,000,000 First Mortgage Bonds, 10% Series due 2004; and repayment of short-term bank loans aggregating \$7,000,000 are summarized from the application as follows:

	<u>August 31, 1979</u>	<u>Pro Forma</u>
Long-Term Debt	44.9%	50.2%
Short-Term Bank Notes	11.9	2.6
Preferred Stock	11.8	15.8
Common Equity	<u>31.4</u>	<u>31.4</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The staff of the Commission's Revenue Requirements Division has reviewed SoCal Water's construction expenditures for the year ending December 31, 1978. The construction expenditures for the year 1978, net of advances in aid of construction, totaled \$5,454,000 as shown in Exhibit E attached to the application. Also shown on Exhibit E is the 1979 construction budget totaling \$4,950,000, net of advances in aid of construction. Planned additions to utility plant are to provide for customer growth and movement, modernization and plant replacement. The Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

^{1/} Authorized by Decision No. 90926, dated October 23, 1979, in Application No. 59105.

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The Revenue Requirements Division has reviewed the application and has concluded that the proposed financing is needed to provide funds for the purposes specified in the application.

Findings of Fact

1. SoCal Water is a California corporation operating under the jurisdiction of this Commission.
2. The proposed issuance of First Mortgage Bonds, 10% Series, due 2004, would be for proper purposes.
3. The proposed Supplemental Indenture would not be adverse to the public interest.
4. The proposed restricted redemption provisions are reasonable.
5. The sinking fund provisions are reasonable.
6. Applicant has need for external funds for the purposes set forth in the application.
7. The money, property or labor to be procured or paid for by the issuance of bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not in whole or in part, reasonably chargeable to operating expenses or to income.
8. There is no known opposition and there is no reason to delay granting SoCal Water's request.

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 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.

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O R D E R

IT IS ORDERED that:

1. On or after the effective date hereof and on or before June 30, 1980, Southern California Water Company may issue and sell not exceeding \$4,000,000 aggregate principal amount of its First Mortgage Bonds, 10% Series, due 2004, at the price and for the purposes set forth in the application.

2. Southern California Water Company may execute and deliver a Supplemental Indenture in substantially the same form as Exhibit A to Exhibit C attached to the application.

3. Southern California Water Company shall file with the Commission a report, or reports, as required by General Order 24-B, which order, insofar as applicable, is hereby made a part of this order.

4. The authority granted by this order shall become effective upon the date Southern California Water Company pays the fee prescribed by Section 1904(b) of the California Public Utilities Code, which fee is \$2,500.

Dated NOV 20 1979, at San Francisco, California.

John E. Bryson
President

Commissioner Richard D. Gravello, being necessarily absent, did not participate in the disposition of this proceeding.

Clayton T. Delbridge
Leonard M. Grimes Jr.
Commissioners

