

ORIGINAL

Decision 93729 NOV 13 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )  
 WATER COMPANY to issue and sell )  
 its First Mortgage Bonds and/or )  
 its Term Notes, the sum of Bonds )  
 and/or Notes not exceeding )  
 \$12,000,000 principal amount and )  
 and to execute and deliver Sup- )  
 plemental Indenture(s) and/or Loan )  
 Agreement(s).

Application 60903  
(Filed September 15, 1981)

O P I N I O N

Southern California Water Company (SoCal Water) requests authority, under Public Utilities (PU) Code Sections 816 through 818 and 851 for the following:

1. To issue and sell up to \$12,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), Term Notes, or both, through private placement;
2. To execute and deliver a Supplemental Indenture or Indentures and/or Term Loan Agreement or Agreements;
3. To exempt the issuance and sale of the New Bonds, Term Notes, or both, from the requirements of the Commission's competitive bidding rule; and
4. To use the net proceeds from the sale of the New Bonds or Term Notes to discharge its short-term indebtedness and to reimburse its treasury for capital expenditures.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 22, 1981. No protests have been received.

SoCal Water, a California corporation, operates as a regulated public utility principally engaged in the sale and distribution of water in portions of 11 counties in California. The company also renders electric service in the vicinity of Big Bear Lake in San Bernardino County.

For the 12 months ended June 30, 1981, SoCal Water reports it generated total operating revenues of \$39,703,000 and net income of \$3,809,000 shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A is SoCal Water's Balance Sheet as of June 30, 1981 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$118,586,000
Investments	561,000
Current Assets	9,825,000
Deferred Charges	1,739,000
Total	<u>\$130,711,000</u>
 <u>Liabilities and Equity</u> 	
Common Equity	\$ 30,667,000
Preferred Stock	11,570,000
Long-Term Debt	34,728,000
Current Liabilities	18,153,000
Advances and Contributions in Aid of Construction	35,593,000
Total	<u>\$130,711,000</u>

SoCal Water proposes to issue and sell, in one or more series, its New Bonds, Term Notes, or both, in an aggregate principal amount up to \$12,000,000 on or before September 1, 1982. The new securities are to be issued in accordance with, secured by, and under, the terms and conditions set forth in the Indenture dated May 1, 1947, executed and delivered by the utility to its Trustee, Bank of America. The Indenture has been amended by supplemental indentures, forms of which have previously been filed with the Commission. It is proposed that a new supplemental indenture would be executed and delivered with each series of the New Bonds. Each supplemental indenture would set forth, among other things, the aggregate principal amount, interest rate, the maturity date of that series of the New Bonds, and would be substantially similar to that shown in Exhibit D attached to the application. We will authorize SoCal Water to execute and deliver each supplemental indenture in a form which SoCal Water believes appropriate and which reflects the aggregate principal amount and interest rate and final maturity date of each series of the New Bonds.

SoCal Water has not entered into any contract for the purchase and sale of the New Bonds or any loan agreement providing for the issuance of the Term Notes. SoCal Water plans to place the New Bonds and Term Notes privately with institutional investors.

Because of recent unstable market conditions, SoCal Water does not believe that it is in its best interest or in the best interest of its ratepayers to determine the definitive terms of the New Bonds at this time. Therefore, SoCal Water seeks Commission authority to offer, issue, and sell the New Bonds at one or more offerings with terms and conditions which will provide for:

1. Interest rates based upon market conditions existing at the time of negotiation of the terms;
2. Restrictive redemption provisions (if any) which will reflect the requirements of the existing bond market at the time of sale;
3. Redemption premiums based on periods and amounts as the bond market shall require;
4. Maturities between 5 and 15 years; and
5. Other provisions as SoCal Water shall deem appropriate in connection with its issuance and sale of the New Bonds that are not inconsistent with the Trust Indenture.

SoCal Water has recorded or estimates its short-term indebtedness as of the dates shown below:

December 31, 1981 (before the anticipated issuance of any New Bonds or Term Notes)	\$11,400,000
March 31, 1982 (before the anticipated issuance of any New Bonds or Term Notes)	\$12,400,000

If no New Bonds or Term Notes are issued, SoCal Water anticipates it will be indebted under short-term credit to banks in the following amounts:

	<u>December 31, 1981</u>	<u>March 31, 1982</u>
Harris Trust and Savings Bank, Chicago, Illinois	\$5,700,000	\$ 6,200,000
First Interstate Bank of California, Los Angeles, California	<u>5,700,000</u>	<u>6,200,000</u>
Total	\$11,400,000	\$12,400,000

SoCal Water would use the proceeds from the issue and sale of the New Bonds and/or Term Notes, after payment and discharge of obligations incurred for expenses incident to their issue and sale, to discharge its short-term debt obligations and, to the extent there are proceeds remaining, to reimburse its treasury for moneys it has actually expended from income or other moneys in its treasury not secured by or obtained from the issue of stocks, stock certificates, or other evidences of indebtedness for the acquisition of property or for the construction, completion, extension, or improvement of its facilities.

Preliminary discussions with SoCal Water's present short-term lenders indicate that one or more series of Term Notes having maturities of three to five years with no compensating

balances may be issued at a net cost of approximately 250 basis points less than the cost of bank loans at present prime interest rates. The Term Notes would not be callable by SoCal Water. However, because SoCal Water and its financial advisors anticipate improvement in the long-term debt market, SoCal Water seeks Commission authority to issue its indebtedness when conditions improve upon terms and conditions as may be agreed upon at the time of sale without specifying the terms of the Term Notes in the application. The Term Notes would be issued under a loan agreement or loan agreements which will be substantially in the form as shown in Exhibit E attached to the application. SoCal Water requests authorization to execute and deliver each loan agreement in a form which it believes appropriate and which reflects the aggregate principal amount, interest rate, and final maturity date of each series of the Term Notes.

SoCal Water requests an exemption from the competitive bidding rule for the issuance and sale of the \$12,000,000 aggregate principal amount of New Bonds and/or Term Notes. The application indicates that SoCal Water's management believes, based on information received from its financial advisors, that sale of all or part of the \$12,000,000 aggregate principal amount of the New Bonds and/or Term Notes 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 the New Bonds and of the Term Notes sold to the preference of institutional purchasers in exchange for more favorable terms than would otherwise be available if they were 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 New Bonds or Term Notes under competitive bidding.

If SoCal Water chooses to issue and sell its New Bonds or 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 New Bonds or Term Notes.

SoCal Water's capital ratios as of June 30, 1981 and adjusted to December 31, 1981 giving pro forma effect to

1. The proposed issuance and sale of up to \$12,000,000 aggregate principal amount of New Bonds or Term Notes;
2. An increase of \$3,000,000 in short-term borrowing and the ultimate redemption of \$11,400,000 short-term notes as of December 31, 1981;
3. Payments of \$270,000 and \$63,000 of long-term indebtedness through the Sinking Fund;
4. The payment of \$40,000 to cover redemption of preferred stock through the Sinking fund; and



5. The increase of \$942,000 in earned surplus from income estimated for the last six months of 1981

are as follows:

	<u>June 30, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	41.5%	52.4%
Short-Term Debt	9.7	-
Total Debt	<u>51.2</u>	<u>52.4</u>
Preferred Stock	13.5	12.9
Common Equity	35.3	34.7
Total	<u>100.0%</u>	<u>100.0%</u>

SoCal Water's capital budgets for the years 1980 recorded, and 1981 estimated, are summarized as follows:

<u>Description</u>	<u>1980</u>	(000 Omitted) <u>1981</u>	<u>Total</u>
<u>Water</u>			
General (Water supply, Distribution Plant, etc.)	\$ 3,680	\$3,352	\$ 7,032
New Business	5,000	3,165	8,165
Blankets (Meters, Services, etc.)	1,440	1,483	2,923
Electric Net of Advances	325	425	750
Special Authorizations	<u>475</u>	<u>0</u>	<u>475</u>
Total	10,920	8,425	19,345
Less: Advances and Contributions	<u>4,650</u>	<u>2,950</u>	<u>7,600</u>
Grand Total	\$ 6,270	\$5,475	\$11,745

The Commission's Revenue Requirements Division has reviewed SoCal Water's 1980 and 1981 construction program and has concluded that the program is necessary. No objection has been taken to the proposed security issue(s) specified in the application. The Division reserves the right, however, to reconsider the reasonableness of any specific program and construction expenditures in future rate proceedings. ✓

The Revenue Requirements Division of the Commission staff has analyzed the statement of financial position attached to SoCal Water's application as Exhibit B, attached to the application. The staff determined that cash generated from internal sources will provide 39% of the capital requirements estimated for 1981 and 33% for those estimated in 1982. The Revenue Requirements Division has concluded that the proposed financing is necessary to help SoCal Water meet its capital requirements.

Findings of Fact

1. SoCal Water, a California corporation, operates as a public water utility under the jurisdiction of this Commission.
2. The proceeds of the proposed New Bonds and/or Term Notes 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 New Bonds and/or Term Notes should not be required to be through competitive bidding.

6. The proposed supplemental indenture and the proposed loan agreement would not be adverse to the public interest.

7. The money, property, or labor to be procured or paid for by the proposed debt securities 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 issues are 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 New Bonds and/or Term Notes 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 September 1, 1982, may issue, sell, and deliver for cash at one time or from time to time up to \$12,000,000 aggregate principal amount of its New Bonds and/or Notes 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 one or more supplemental indentures and/or loan agreements in forms substantially similar to Exhibit D and Exhibit E, respectively, attached to the application.

3. Sales by SoCal Water of its New Bonds and/or Term Notes in the aggregate principal amount up to \$12,000,000 are 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 New Bonds and/or Term Notes by means of a competitive offering.

4. SoCal Water shall file a copy of the supplemental indenture(s) and/or loan agreement(s) and a written report within 30 days of each and every sale with the Commission showing the terms and conditions of the New Bonds and/or Term Notes and fees incurred.

5. If the New Bonds and/or Term Notes are 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 securities.

6. SoCal Water shall apply the net proceeds from the sale of New Bonds and/or Term Notes to the purposes set forth in the application.

7. If the New Bonds and/or Term Notes are 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.

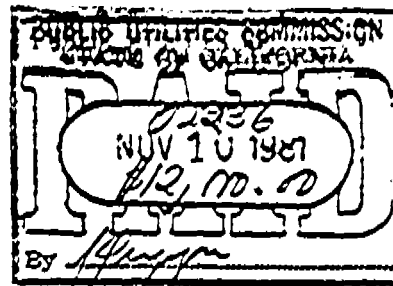
8. SoCal Water shall file the reports required by General Order Series 24.

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9. The authority granted by this order to issue debt securities will become effective when SoCal Water pays \$12,000, the fee set by PU Code Sections 1904(b) and 1904.1. In all other respects, this order becomes effective 30 days from today.

Dated NOV 13 1981, at San Francisco, California.

JOHN E. BRYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. CREMES, JR.  
VICTOR CALVO  
PRISCILLA C. CREW  
Commissioners



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

*Joseph E. Boacovic*  
Joseph E. Boacovic, Executive Director