

WATER/RHG

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Decision 97-10-019 October 9, 1997

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
DOMINGUEZ WATER CORPORATION U-330-W, )  
for an Ex Parte Order Authorizing )  
the Issuance of Bonds and the Encum- )  
brance of its Property in Connection )  
with the Issuance. )

Application No. 97-07-044  
(Filed July 21, 1997)

O P I N I O N

Summary of Decision

This Decision grants Dominguez Water Corporation (Dominguez) the authority requested in Application (A.) 97-07-044 (Application).

Dominguez requests authority, pursuant to §§ 816, et seq., and §§ 851, et seq., of the Public Utilities (PU) Code to issue and sell its First Mortgage Series K Bonds (Bonds) up to the aggregate principal amount of \$5,000,000, and to execute and deliver a Supplement to the existing Trust Indenture, dated August 1, 1954, as supplemented (collectively, the Indenture).

Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 5, 1997. No protests have been received.

Background

Dominguez, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. Dominguez provides water service to approximately 37,000 customers in service areas which include most of the City of Carson, a large portion of the City of Torrance, a modern industrial subdivision in the City of Compton, a strip of Los Angeles County, and a commercial subdivision tract in the City of Los Angeles. Dominguez is a wholly-owned subsidiary of Dominguez Service Corporation.

Dominguez owns all of the outstanding capital stock of Antelope Valley Water Company which serves customers located in Northern Los Angeles County as well as Kernville Domestic Water Company, Lakeland Water Company, and Arden Water Company which collectively serve customers located around Lake Isabella in the southern area of Kern County.

For the twelve months ended December 31, 1996, Dominguez reported that it generated total operating revenues of \$24,624,966 and net income of \$1,555,555, as shown in Exhibit B to the Application

Dominguez's Balance Sheet as of December 31, 1996, shown as part of Exhibit B, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Total Property, Plant & Equipment	\$40,335,804
Total Current Assets	6,959,689
Deferred Debits	<u>3,975,543</u>
 Total Assets	 \$51,271,036
<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$15,449,233
Long-Term Debt	<u>7,050,637</u>
 Total Capitalization	 \$22,499,870
Current and Accrued Liabilities	\$10,085,127
Other Credits	<u>18,686,039</u>
 Total Capitalization and Liabilities	 \$51,271,036

Description of Bonds

Dominguez proposes to issue and sell \$5,000,000 principal amount of its Bonds, to be secured by and issued under the provisions of Dominguez's Indenture, and as to be further supplemented for the current issuance.

Dominguez anticipates that the Bonds will be substantially similar in form and content to that shown in Exhibit C to the Application, with such changes or additions deemed

necessary or appropriate in order to meet current market demands. The Bonds will mature fifteen years after issuance, will be amortized over an average of twelve years and will have an interest rate to be set at the time of issuance which will be approximately eighty basis points above the then ten-year Treasury Bond rate. The Bonds will be privately placed to a limited number of institutional investors by the underwriter, Paine Webber, who will receive an underwriting fee of approximately one and a half percent up to \$60,000 as shown in Exhibit D to the Application.

As soon as available, Dominguez will file Supplement No. 12, which will be substantially similar in form and content to Supplemental Indenture No. 11, previously submitted to the Commission. As set forth in the Indenture, the Bonds will be secured by a lien on all of the real and personal property of Dominguez.

Dominguez's proposed issue of Bonds raises no questions that should dissuade us from giving favorable consideration to the authorization requested. Dominguez is placed on notice by this decision that the Commission will review the reasonableness of the cost of money resulting from its issue of Bonds in conjunction with Dominguez's general rate case or other ratemaking proceedings.

#### Exemption from Competitive Bidding

Under the provisions of Commission Resolution F-616 dated October 1, 1986, Dominguez's proposed issue and sale of Bonds is exempt from the Commission's Competitive Bidding Rule because the principal amount does not exceed \$20,000,000.

#### Construction Budget

Dominguez's projected capital improvements include:

- (a) approximately \$200,000 for the purchase of a new well site;
- (b) approximately \$1,000,000 for construction costs associated with a new well and improvements of several existing sites; and
- (c) approximately \$600,000 for pipeline and main replacements.

Capital Ratios

Dominguez's capital ratios as of March 31, 1997 are shown below as recorded and as adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>Recorded</u>		<u>Pro Forma</u>	
Short-Term Debt	\$ 1,500,000	6%	\$ 0	0%
Current Portion of Long-Term Debt	834,000		84,000	
Long-Term Debt	<u>7,047,474</u>		<u>10,797,474</u>	
Total Long-Term Debt	\$ 7,881,474	32%	\$10,881,474	41%
Shareholder's Equity	<u>15,385,177</u>	<u>62%</u>	<u>15,385,177</u>	<u>59%</u>
Total Capitalization	\$24,766,651	100%	\$26,266,651	100%

1. \$1,500,000 short-term debt to be paid-off.
2. \$5,000,000 proposed issue of Bonds (\$1,500,000 of proceeds to be utilized for capital projects).
3. A total of \$2,000,000 long-term debt to be retired.

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Use of Proceeds

Dominguez proposes to use the proceeds from the issue of Bonds to pay off short-term debt and to fund certain capital improvements.

Dominguez currently owes approximately \$2,000,000 on a \$4,500,000 line of credit with Bank of America (Bank), at an annual interest rate equal to or below the Bank's reference rate, which is currently 8.5%. Dominguez has used this line of credit to purchase long-term capital assets in the past.

Dominguez has also used this line of credit to make principal payments on long-term borrowings. Pursuant to the

Application, Dominguez intends to redeem all its First Mortgage Series H Bonds (Series H Bonds) on August 1, 1997. Dominguez will increase its short-term borrowing under the line of credit by \$1,250,000 to redeem the Series H Bonds. The Series H Bonds bear a coupon rate of 9.375% and are due on August 1, 1998. Dominguez will pay a premium of .0438% or \$6,162.50 to make an early redemption of the Series H Bonds.

The management of Dominguez has determined that it is in the company's best interest to replace its short-term debt with more secure long-term debt, the maturity of which will more closely approximate the amortization schedule applicable to its capital assets. The balance of the proceeds, if any, will be used for working capital purposes.

PU Code § 823 (d) provides:

No note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.

For purposes of this Application and pursuant to PU Code §§ 818 and 823(d), we will approve Dominguez's intended use of proceeds (including retirement and discharge of short-term debt) from the proposed issue of Bonds.

Dominguez is placed on notice by this decision that the proceeds from the financing transaction cannot be charged to operating expenses or income.

#### Findings of Fact

1. Dominguez, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. Dominguez needs external funds for the purposes set forth in the Application.

3. The proposed issuance of Bonds and the execution of a Supplement to the Indenture (securing the Bonds by a lien on all of the real and personal property of Dominguez) would not be adverse to the public interest.

4. The Commission does not by this decision determine that Dominguez's construction budget and capital ratios are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or cost of capital proceedings.

5. The money, property, or labor to be procured or paid for by this transaction is reasonably required for the purposes specified in the Application.

6. PU Code § 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

7. The Competitive Bidding Rule does not apply to debt issues under \$20,000,000.

8. There is no known opposition to the Application and there is 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.

3. The proposed issuance of Bonds is for lawful purposes and the money, property, or labor to be obtained are required for these purposes. The proceeds may not be charged to operating expenses or income.

4. Dominguez will pay the fee determined in accordance with PU Code § 1904(b).

O R D E R

IT IS ORDERED that:

1. Dominguez Water Corporation (Dominguez), on or after the effective date of this order, is authorized to issue and sell its First Mortgage Series K Bonds up to the aggregate principal amount of \$5,000,000, upon terms and conditions substantially consistent with those set forth in or contemplated in Application 97-07-044 (Application).

2. Dominguez may execute and deliver Supplement No. 12, to the existing Trust Indenture, dated August 1, 1954, as supplemented, which will be substantially similar in form and content to Supplemental Indenture No. 11, previously submitted to the Commission.

3. Dominguez shall apply the proceeds from the transaction for the purposes specified in the Application.

4. Dominguez shall file with the Water Division copies of the Supplemental Indenture and other security instruments not later than 15 days after the documents have been executed.

5. On or before the 25th day of each month, Dominguez shall file the reports required by General Order Series 24.

6. The authority granted by this order shall become effective when Dominguez pays \$6,000, the fee required by Public Utilities Code § 1904(b).

7. The Application is granted as set forth above.

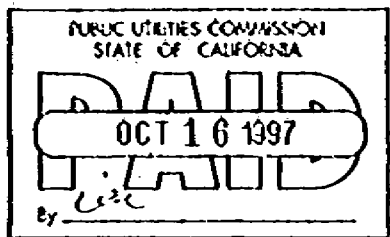
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8. This proceeding is closed.

This order is effective today.

Dated October 9, 1997, at San Francisco, California.

P. GREGORY CONLON  
President  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
RICHARD A. BILAS  
Commissioners



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