

WATER/RHG

Decision 98-07-087 July 23, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN GABRIEL)
VALLEY WATER COMPANY U-337-W, for)
authorization to (1) obtain debt capital not to)
exceed \$30,000,000, and (2) obtain an exemption)
from the Competitive Bidding Rule.)

Application 98-05-027
(Filed May 5, 1998)

OPINION

Summary of Decision

This decision grants San Gabriel Valley Water Company (San Gabriel) the authority requested in Application (A.) 98-05-027 (Application).

San Gabriel requests authority, pursuant to §§ 816 through 830, and 851 of the Public Utilities (PU) Code for the following:

1. to obtain debt capital in an aggregate principal amount not to exceed \$30,000,000 through the issuance and sale of one or more additional series of San Gabriel's First Mortgage Bonds, debentures, promissory notes or other evidences of indebtedness (collectively, Debt Securities) in more than one financing;
2. to use the net proceeds from the sale of the Debt Securities to reimburse its treasury for monies expended and to be expended for expansion and betterment of utility plant and to refund debt securities retired and to be retired at maturity and through sinking fund payments and redemption (including premiums, if any); and
3. to obtain an exemption from the Commission's Competitive Bidding Rule for the issuance of the Debt Securities.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of May 18, 1998. No protests have been received.

Background

San Gabriel, a California corporation, operates as a water utility under the jurisdiction of this Commission. San Gabriel engages in the production, distribution, and sale of water in Los Angeles and San Bernardino Counties to approximately 77,400 customers as of December 31, 1997.

San Gabriel owns wells, pumping equipment, water treatment equipment, reservoirs and tanks, transmission mains, distribution mains, services and appurtenant meters, fire hydrants, office buildings, general shops, warehouses for materials and supplies, and other property necessary in the conduct of its business.

For the twelve months ended December 31, 1997, San Gabriel reported it generated total operating revenues of \$50,558,913 and net income of \$7,862,477 as shown in Exhibit A to the Application.

San Gabriel's Balance Sheet at December 31, 1997, shown as part of Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$126,244,290
Investment and Fund Accounts	297,708
Current and Accrued Assets	5,356,678
Deferred Debits	<u>5,325,141</u>
 Total	 \$137,223,817
 <u>Liabilities and Equity</u>	 <u>Amount</u>
Corporate Capital and Surplus	\$ 51,343,015
Long-term Debt ¹	17,917,500
Current and Accrued Liabilities	19,929,318
Deferred Credits	<u>48,033,984</u>
 Total	 \$137,223,817

Description of Financing

San Gabriel proposes to issue, sell or deliver, in more than one financing, Debt Securities in an aggregate principal amount not to exceed \$30,000,000.

The precise amount and timing of each financing, the market in and method by which it is effected, the price and interest rate (which may be fixed, adjustable or variable) and other material provisions of the Debt Securities issued in each financing will be determined by San Gabriel, within the constraints set forth below, with due regard for its financial condition and requirements and the then prevailing and anticipated market conditions, including competing demands for funds, existing at the time of each financing.

1. First Mortgage Bonds - bonds would be issued in conformity with the provisions of, and secured by, San Gabriel's Trust Indenture, dated September 1, 1945, as amended and supplemented.

¹ Before unamortized discount and expense amount of \$59,809.

2. **Debentures and Notes** - debentures or promissory notes, may be placed privately and may have fixed or floating rates of interest. Such debentures or promissory notes would be issued in accordance with an indenture, purchase agreement or other document that would set forth the aggregate principal amount, maturity, default, and other material provisions of such debentures or promissory notes.
3. **Medium-Term Notes** - medium-term notes are notes that may be offered on a continuous or periodic basis. Maturities generally range from nine months to 15 years, although they can extend for more than 30 years. They may be sold in private offerings, with fixed or floating rates, in senior or subordinated form. Medium-term notes can be tailored to an investor's specific maturity needs so as to achieve the lowest cost of funds.
4. **Loans** - from time to time it may be advantageous for San Gabriel to borrow directly from banks, insurance companies or other financial institutions. San Gabriel intends to confine its borrowings of this nature to situations designed to result in a lower overall cost of money and/or more advantageous terms and conditions than that available through the issuance of other types of Debt Securities.

The Debt Securities as stated in the Application may be issued as one or more additional series of San Gabriel's First Mortgage Bonds or as debentures, promissory notes or other evidences of its indebtedness. Each financing will be effected through the use of indentures, offering documents, purchase agreements, loan agreements, or other documents and instruments customary for the financing method selected by San Gabriel.

We will authorize San Gabriel's proposed issue of Debt Securities in the aggregate principal amount not exceeding \$30,000,000. We place San Gabriel on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in general rate case proceedings.

We will require San Gabriel to maintain, and, within thirty days from request, provide the Water Division any or all of the following:

1. The price, interest rate, and other terms pertaining to its issuance of Debt Securities.

2. Copies of the indentures and supplemental indentures setting forth, among other things, the aggregate principal amount, interest rate, redemption and sinking fund requirements, and the maturity date of issues of bonds and debentures.
3. Copies of the agreements setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of any series of notes or other evidences of indebtedness.

Exemption from Competitive Bidding

Commission Resolution F-616 dated October 1, 1986, provides that the Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher. San Gabriel has informed staff that it has not been rated by any rating company. The May 1998 and earlier issues of Standard and Poor's Bond Guide do not include San Gabriel in its broad list of bonds. Accordingly, San Gabriel is exempt from the requirements of the Competitive Bidding Rule.

Construction Budget

San Gabriel's estimated construction budgets for calendar years 1998 and 1999, included as Exhibit C to the Application, are as follows:

<u>Item</u>	<u>1998</u>	<u>1999</u>
Land and Land Rights		\$ 300,000
Structures	\$ 200,000	1,000,000
Wells	1,500,000	1,500,000
Pumping and Equipment	2,500,000	2,000,000
Water Treatment and Equipment	3,000,000	1,500,000
Storage	1,250,000	1,500,000
Transmission and Distribution Mains	6,250,000	7,300,000
Services	2,000,000	2,300,000
Meters	300,000	300,000
Hydrants	500,000	500,000
General Equipment	<u>700,000</u>	<u>800,000</u>
Total	\$18,200,000	\$19,000,000

We will not make a finding in this decision on the reasonableness of San Gabriel's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate case proceedings.

Capital Ratios

San Gabriel's capital ratios, as of December 31, 1997, submitted as part of Exhibit C to the Application, are presented below, as recorded and as adjusted to give pro forma effect to the issuance of the Debt Securities and estimated income from operations:

	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-Term Debt	\$17,857,691	23.6%	\$43,783,150	42.8%
Short-Term Debt	<u>6,400,000</u>	<u>8.5%</u>	<u> </u>	<u>0.0%</u>
Total Debt	\$24,257,691	32.1%	\$43,783,150	42.8%
Equity	<u>51,343,015</u>	<u>67.9%</u>	<u>58,462,215</u>	<u>57.2%</u>
Total	\$75,600,706	100.0%	\$102,245,365	100.0%

These pro forma capitalization ratios are adjusted for the proposed long-term debt issues (less sinking fund payments, redemption of long-term debt and amortization of discount, expense and loss on reacquired debt during 1998 and 1999.) Common Equity is adjusted for estimated retained earnings.

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.

Cash Requirements Forecast

San Gabriel's estimated cash requirements forecasts are summarized as follows:

	<u>1998</u>	<u>1999</u>
Funds Needed for Construction	\$18,200,000	\$19,000,000
Less Advances for Construction and Contributions in Aid of Construction	<u>(2,400,000)</u>	<u>(2,400,000)</u>
Funds Required for Construction Expenditures	\$15,800,000	\$16,600,000
Retirement of Long-Term Debt:		
Redemptions	3,400,700	0
Sinking Funds Payments	563,750	0
Short-Term Debt O/S Beg. of Year	<u>6,400,000</u>	<u>4,500,000</u>
Total	\$26,164,450	\$21,100,000
Less Estimated Cash Available from Internal Sources	<u>6,739,450</u>	<u>6,175,000</u>
Additional New Funds Required from Outside Sources	\$19,425,000	\$14,925,000

San Gabriel's estimated cash requirements indicate that it would require additional funds from external financing sources amounting to \$34,350,000, of which a net amount of \$29,850,000 will be provided by the sale of Debt Securities and \$4,500,000 by short-term debt.

Use of Proceeds

San Gabriel proposes to use the net proceeds from the sale of the Debt Securities to (1) reimburse its treasury for monies expended and to be expended for expansion and betterment of utility and (2) refund \$3,500,000 debt securities retired; \$3,353,750 to be retired at maturity; and provide for \$3,382,500 through sinking fund payments and redemptions (including premiums, if any).

The proposed use of proceeds is for proper purposes and is not adverse to the public interest. San Gabriel is placed on notice that the proceeds from the loan cannot be charged to operating expenses or income.

In Resolution (Res.) ALJ#176-2993 dated May 21, 1998, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ#176-2993.

Findings of Fact

1. San Gabriel, a California corporation, is a public utility under the jurisdiction of this Commission.
2. San Gabriel needs external funds for the purposes set forth in the Application.
3. The proposed issue of Debt Securities is for proper purposes.
4. It is in the public interest to authorize San Gabriel to determine the precise amount and timing of each financing, the market in and method by which each financing is effected and the terms and provisions, price of and interest rate of the Debt Securities issued in each financing.
5. Authorizing San Gabriel to mortgage or otherwise encumber its properties as security for its Debt Securities or other evidences of indebtedness is not adverse to the public interest.
6. 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.
7. San Gabriel does not have any bond rating.
8. The Commission does not by this decision determine that the construction budget, capital structure, and cash requirements forecast presented herein are necessary or reasonable for ratemaking purposes.

9. Notice of the filing of the Application appeared on the Commission's Daily Calendar of May 18, 1998, and no protests or requests for rehearing have been received. There is no known opposition to the Application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. Rules of Practice and Procedure Rules 6 through 6.5 do not apply in this proceeding.
3. The Application should be granted to the extent set forth in the order which follows.
4. The proposed issue of Debt Securities is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the debt issue may not be charged to operating expense or income.
5. San Gabriel will pay the fee in accordance with PU Code § 1904(b). The fee computation should take into account the fee exemption for the refunding of outstanding indebtedness on which a fee has already been paid.
6. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. San Gabriel Valley Water Company (San Gabriel), on or after the effective date of this order, is authorized to do the following upon terms and conditions substantially consistent with those set forth in or contemplated by Application 98-05-027 (Application):
 - a. to issue and sell Debt Securities in an aggregate principal amount not to exceed \$30,000,000 through the issuance and sale of one or more additional series of San Gabriel's First Mortgage Bonds, debentures, promissory notes or other evidences of indebtedness;

- b. to use the net proceeds from the sale of the Debt Securities to reimburse its treasury for monies expended and to be expended for expansion and betterment of utility plant and to refund debt securities retired and to be retired at maturity and through sinking fund payments and redemption (including premiums, if any); and
 - c. to determine the precise amount and timing of each financing, the market in and method by which each is effected, the price and interest rate and other material terms and provisions (including, if any, the terms of redemption, repurchase, security, and subordination provisions) of the borrowings and of any Debt Securities related thereto.
 2. San Gabriel's proposed issue of Debt Securities is exempt from the requirements of the Commission's Competitive Bidding Rule.
 3. San Gabriel shall maintain, and within thirty days from request, provide the Water Division any or all of the following:
 - a. The price, interest rate, and other terms pertaining to the issuance of Debt Securities.
 - b. Copies of the indentures and supplemental indentures setting forth, among other things, the aggregate principal amount, interest rate, redemption and sinking fund requirements and the maturity date of issues of bonds and debentures.
 - c. Copies of the agreements setting forth, among other things, the aggregate principal amount, interest rate, final maturity date, and other items of any series of notes or other evidences of indebtedness.
 4. On or before the 25th day of each month, San Gabriel shall file the reports required by General Order Series 24.
 5. The authority granted by this order shall become effective when San Gabriel pays \$17,632, the fee set forth by Public Utilities Code § 1904(b).

6. Application 98-05-027 is closed.

This order is effective today.

Dated July 23, 1998, at San Francisco, California.

RICHARD A. BILAS

President

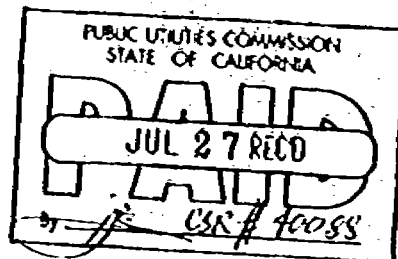
J. GREGORY CONLON

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners



\$ 17,632.00