

Decision 84 04 005

APR 4 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WATER WEST
CORPORATION for Authority to Issue
Promissory Notes or Other Evidences
of Indebtedness.

Application 84-02-30
(Filed February 14, 1984)

O P I N I O N

Water West Corporation (Water West) requests authority, under Public Utilities (PU) Code Sections 816 and 830, for the following:

1. To issue a new promissory term note (Term Note), to the Security Pacific National Bank (Security Pacific), in the aggregate principal amount of \$150,000 and
2. To issue one or more unsecured demand notes (Demand Notes) to Clayton B. Neill in the aggregate principal amount of \$100,000 and one or more Demand Notes to Dorothy M. Neill in the aggregate principal amount of \$130,000 to refinance presently outstanding promissory notes.

The application indicates that, during the year 1983, Water West inadvertently issued Demand Notes to refinance short-term promissory notes without first seeking authority from this Commission as required by PU Code Section 823(d). Appendix C to the application list three of these notes issued in the amount of \$45,000 to Clayton B. Neill and three to Dorothy M. Neill for \$60,000. Under the above section of the PU Code, these notes are now null and void.

Summary of Decision

This decision authorizes Water West to issue its new Term Note to Security Pacific National Bank for \$150,000 and to reissue the notes listed as outstanding to Clayton B. Neill in the aggregate principal amount of \$100,000 and those to Dorothy M. Neill in the aggregate principal amount of \$130,000 to refinance the presently outstanding notes.

Notice of the filing of the application appeared on the Commission's Daily Calendar of February 21, 1984. No protests have been received.

Water West, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. Water West provides water service, principally for domestic purposes, in Monterey County through the following operating divisions:

1. Rancho del Monte Division - serving a residential area in Carmel Valley;
2. Bolsa Knolls Division - serving a northern portion of the city of Salinas and adjacent unincorporated territory;
3. Las Lomas Division - serving a rural residential area southeast of Watsonville; and
4. Oak Hills Division - serving several new subdivisions east of Castroville.

For the 12 months ended June 30, 1983, Water West reports in its Comparative Statement of Income and Expense attached to the application as part of Appendix C that it generated total operating revenues of \$543,067 and a net income of \$8,590.

Also shown as part of Appendix C is Water West's Balance Sheet as of June 30, 1983 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$2,195,950
Plant not in Service	10,017
Current Assets	92,632
Non-Current Assets	<u>7,453</u>
Total	\$2,306,052
<u>Liabilities and Equity</u>	
Common Equity	\$ 750,006
Current Liabilities	149,134
Non-Current Liabilities	929,802
Contributions in Aid of Construction	<u>477,110</u>
Total	\$2,306,052

In this application, Water West proposes to issue to Security Pacific a variable interest rate Term Note in the aggregate principal amount of \$150,000. This note would bear an annual interest rate equal to Security Pacific's prime rate plus 2-1/4%, would be based on a 365-day year, and would mature on March 30, 1989. This Term Note would be secured by the personal guaranties of Gilbert M. Neill and Clayton B. Neill, Jr., Water West's officers. The principal would be repayable in monthly

installments of \$2,500 in addition to accrued interest to the due date of each payment. The proposed Term Note would be issued under Security Pacific's loan commitment letter dated January 9, 1984, a copy of which is attached to the application, and under the terms of a definitive loan agreement to be prepared and executed as contemplated by the bank's commitment letter.

Use of Proceeds from Security Pacific's Loan

Proceeds from the bank loan, based on Water West's letter dated March 1, 1984, would be applied (1) to replace water mains in the Bolsa Knolls and Rancho del Monte Divisions and (2) to finance rehabilitation and repair of pumps throughout Water West's four systems. Water West states that these capital expenditures are necessary in order to assure adequate and reliable service to its customers.

New Demand Notes

Water West also proposes to issue one or more unsecured Demand Notes to Clayton B. Neill in the aggregate principal amount of \$100,000 and one or more unsecured Demand Notes to Dorothy M. Neill in the aggregate principal amount of \$130,000 to evidence presently outstanding indebtedness in the aggregate amounts now represented by a series of demand notes or promissory notes maturing in not more than one year. These outstanding notes bear interest at rates ranging from 15-1/2% to 17-1/2% per year, and

have been outstanding for various periods of time as shown in Appendix C attached to the application. The new Demand Notes would be payable on demand and would bear interest, payable monthly on the last day of each month, at an annual rate of 2-1/4% above the prime rate published by Security Pacific from time to time.

At various times in the past, when bank lines of credit were insufficient for Water West's requirements (and other sources of financing were not available to it), Water West borrowed funds from Clayton B. Neill and Dorothy M. Neill evidenced by demand notes or by one-year term notes bearing interest at the then-prevailing interest rates. Commission authority for the issuance of these notes was not required; however, approval is required for any refinancing of them under PU Codes Section 823(d).

When prevailing interest rates declined below the level specified in certain of the presently outstanding demand notes, Clayton B. Neill and Dorothy M. Neill agreed that a lower interest rate would be acceptable to them. Accordingly, Water West issued new demand notes bearing interest at 15-1/2% per year and the prior notes were surrendered and cancelled. In effect this changed old notes for new notes at lower interest rates. Water West represents that it inadvertently overlooked the fact that prior Commission approval was required for the new issues.

The new Demand Notes which Water West proposes to issue to Clayton B. Neill and Dorothy M. Neill would bear interest at a floating rate equal to that which Security Pacific proposes to apply to the \$150,000 Term Note which Water West seeks authority to issue. As a result, interest payable on these new notes would reflect Security Pacific's interest rates prevailing from time to time during the period these notes are outstanding. On January 31, 1984, Security Pacific's prime rate was 11%. As of that date, the effective interest rate on the new notes would have been 13-1/4% instead of the higher interest rates payable with respect to the indebtedness evidenced by the outstanding notes. Although issuance of new Demand Notes to Clayton B. Neill and to Dorothy M. Neill would evidence obligations already outstanding and would provide no new funds to Water West, the proposed new notes would bear interest at a rate which is currently below the rates payable on the presently outstanding obligations and would, in the future, be no higher than that which Security Pacific would be assessing under the bank loan referred to above. We are of the opinion that an interest rate on these obligations, fixed by reference to an outside index such as the Security Pacific's prime rate, will provide an objective guide to the interest rate to be paid on funds advanced to Water West by Clayton B. Neill and Dorothy M. Neill.

The Commission's Revenue Requirements and Utilities Divisions have reviewed Water West's construction budget, subject of a letter dated March 1, 1984 to the Commission and find that the new debt security totaling \$150,000 is necessary to fund the planned construction expenditures. The Commission is not finding the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Commission's Revenue Requirements Division has reviewed the application and has no objection to Water West's issuance of its new Term Note to Security Pacific or the refinancing of its presently outstanding promissory and demand notes with new Demand Notes.

Findings of Fact

1. Water West, a California corporation, operates as a public water utility under the jurisdiction of this Commission.
2. Water West's issuance of its new \$150,000 Term Note to Security Pacific covering improvements and maintenance of its service is for a proper purpose.
3. Water West's conversion of short-term notes and demand notes to new Demand Notes to Clayton B. Neill in the aggregate principal amount of \$100,000 and new Demand Notes in the aggregate principal amount as \$130,000 to Dorothy M. Neill are for a lawful purpose.

4. Water West has need for external funds for the purposes set forth in the application.

5. The money, property, or labor to be procured or paid for by the proposed Term Note and new Demand Notes are reasonably required for the purposes specified in the application.

6. 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. 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 them 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 and payment of the fee set by PU Code Section 1904(b) to enable Water West to proceed with its issuance of its debt securities expeditiously.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order and on or before December 31, 1984, Water West Corporation (Water West) may issue and sell its new promissory Term Note in the aggregate principal amount of \$150,000 to the Security Pacific National Bank (Security Pacific) under terms and conditions similar to those shown the loan commitment letter dated January 9, 1984 attached to the application.

2. On or after the effective date of this order and on or before December 31, 1984, Water West may issue one or more new Demand Notes in the aggregate principal amount of \$100,000 to Clayton B. Neill for the purpose of refinancing the outstanding notes payable to him shown as part of Appendix C attached to the application. These new notes will bear terms and conditions substantially the same as those applicable to the Term Note authorized by Ordering Paragraph 1 above.

3. On or after the effective date of this order and on or before December 31, 1984, Water West may issue one or more new Demand Notes in the aggregate principal amount of \$130,000 to Dorothy M. Neill for the purpose of refinancing the outstanding notes payable to her shown as part of Appendix C attached to the application. These new notes will bear terms and conditions

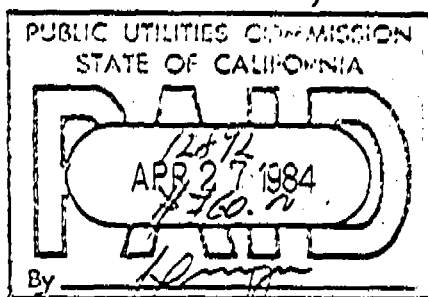
substantially the same as those applicable to the Term Note authorized by Ordering Paragraph 1 above.

4. Water West shall apply the net proceeds from the issuance of its debt securities to the purpose set forth in the application.

5. Water West shall file the reports required by General Order Series 24.

6. The authority granted by this order to issue debt securities will be effective when Water West pays \$760, the fee set by PU Code Section 1904(b). In all other respects this order is effective today.

Dated APR 4 1984 at San Francisco, California.



LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. CREW
DONALD VIAL
Commissioners

Commissioner William T. Bagloy
being necessarily absent, did
not participate.

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