

CACD/CFF*

Decision SS OS 004 AUG 10 1988**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of AZUSA VALLEY WATER)
 COMPANY for an Order Authorizing)
 the Refunding of Certain Indebted-)
 ness of Azusa Valley Water Company.)
 (U-325-W))

Application 88-05-054
 (Filed May 31, 1988)

OPINIONSummary of Decision

This decision grants Azusa Valley Water Company (Azusa) the authority requested in the application.

Azusa requests authority, under Public Utilities Code (Code) Sections 818 through 830, for the following:

1. To issue and sell an unsecured promissory note (Refund Note) for the purpose of refunding certain short-term indebtedness in the aggregate principal amount of \$1,000,000 and
2. In connection with the above refunding, to remain subject to the terms of the Credit Agreement dated September 17, 1987 (attached to the application as part of Exhibit C) and executed by Azusa with the Wells Fargo Bank, N.A. (the Bank).

Notice of the filing of the application appeared on the Commission's Daily Calender of June 6, 1988. No protests have been received.

Azusa, a California corporation, operates as a public utility under the jurisdiction of this Commission. Azusa engages in the sale and distribution of water to domestic, municipal and agricultural customers within the city limits of the Cities of

Azusa, Covina, Glendora, Irwindale, West Covina and the area of Los Angeles County lying between these cities.

For the 12 months ended March 31, 1988, Azusa reported that it generated total operating revenues of \$2,743,687 and net income of \$329,817, shown as part of Exhibit B-1 attached to the application.

Also shown as a part of Exhibit B-1 is Azusa's Balance Sheet as of March 31, 1988 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$7,305,555
Current Assets	801,261
Other Assets	<u>110,251</u>
Total	\$8,217,067
<u>Liabilities and Equity</u>	
Common Equity	\$3,158,146
Preferred Stock	646,400
Long-Term Debt	1,940,000
Current Liabilities	620,956
Advances and Contributions	1,539,676
Other Liabilities and Credits	<u>311,889</u>
Total	\$8,217,067

Issuance of Refund Note and Discussion of Credit Agreement

The indebtedness which Azusa seeks to refund under the application has been, or will be, incurred under the Credit Agreement dated September 17, 1987 (a copy of which is attached to the application as Exhibit C). Under the Agreement, the Bank agreed to make advances to Azusa from time to time up to and including September 1, 1988 in the aggregate principal amount of \$1,000,000.

Azusa used these advances, as agreed in the Credit Agreement, to finance the expansion of its filtration plant and the drilling of a new well. As of the date of the application, Azusa had directed the advancement of a total of \$850,000 out of the available \$1,000,000 and used all of these advances for the purposes stated in the Credit Agreement. By September 1, 1988, Azusa plans to direct or will have already requested the final advancement of the remaining \$150,000 of the original \$1,000,000.

Azusa's obligation to pay the outstanding principal amount under the Credit Agreement is evidenced by the original note (the Note) dated September 17, 1987. The terms of this note were stated in the Credit Agreement which call for payment of interest on the principal amount at an annual rate equal to 3/4ths of a percent above the Bank's prime rate in effect from time to time. Interest under the Note is payable monthly, and the principal amount will be payable in full on September 1, 1988.

The Refund Note which Azusa proposes to issue in order to refund the outstanding short-term indebtedness would, as provided by the Credit Agreement so long as the requisite Commission approval is obtained, restructure repayment of the outstanding principal balance so that the principal amount would be amortized over seven years and would be repaid in monthly installments. All other terms of the Refund Note, as dictated by the Credit Agreement, would be identical to the Note. Azusa would continue to be

bound by all applicable terms of the Credit Agreement so long as the Refund Note remained outstanding. The deadline under the Credit Agreement for restructuring the outstanding short-term indebtedness is September 1, 1988, the maturity date of the Note.

In support of the application, Azusa states that the extended repayment schedule contained in the Refund Note will provide a less burdensome debt service than is contained in the Note, thereby enhancing Azusa's ability to maintain its system.

Exemption from Competitive Bidding Requirements

According to the Commission's Competitive Bidding Rule as amended by Resolution F-616 dated October 1, 1986, competitive bidding is not required for debt security issues of \$20,000,000 or less; therefore, this Refund Note is exempt.

Capital Ratios

Azusa's capital ratios reported as of March 31, 1988 are shown below as recorded and adjusted to give pro forma effect to the refunding of \$1,000,000 in short-term debt by a long-term note in the same amount as follows:

<u>Component</u>	<u>March 31, 1988</u>	<u>Pro Forma</u>
Long-Term Debt	25.1%	39.1%
Short-Term Debt	<u>8.7</u>	<u>0</u>
Total Debt	33.8	39.1
Preferred Stock	11.3	10.4
Common Equity	<u>54.9</u>	<u>50.6</u>
Total	100.0%	100.0%

The Commission Advisory and Compliance Division has reviewed the application and has concluded that Azusa's proposed refunding of short-term debt with long-term financing is necessary to help Azusa to fund the planned improvement program. However, Azusa is placed on notice, by this decision, that the Commission does not find that Azusa's construction program is necessary, or reasonable, for rate-making purposes. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. Azusa, a California corporation, operates as a public water utility subject to the jurisdiction of this Commission.
2. The proposed refunding of Azusa's short-term debt and the issuance and sale of its Refund Note is for proper purposes.
3. The proposed refunding would not be adverse to the public interest.
4. The money, property or labor to be procured, or paid for, by the proposed refunding and refinancing by the Refund Note is reasonably required for the purposes specified in the application.
5. There is no known opposition and there is no reason to delay granting the authority requested in the application.

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 financings are for lawful purposes and the money, property and labor to be obtained by them is required for these purposes. Proceeds from this indebtedness may not be charged to operating expense or income.

The following order should be effective on the date of signature and payment of the fee set by Code Section 1904(b) to enable Azusa to proceed with its financings 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, 1988, Azusa Valley Water Company (Azusa) may restructure and issue the debt evidenced by the unsecured promissory note (Refund Note) in the manner detailed in the Credit Agreement dated September 17, 1987.
2. Azusa may remain subject to the terms of the Credit Agreement for so long as the Refund Note is outstanding.
3. Azusa shall apply the proceeds from any remaining advances under the Credit Agreement to the purposes specified in the application.

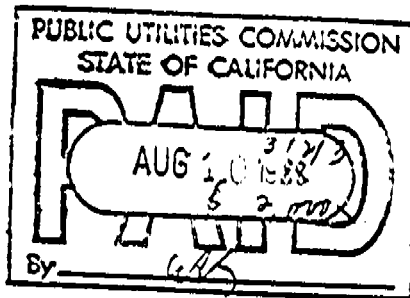
4. Azusa shall file with the Commission Advisory and Compliance Division a report, or reports, as required by General Order Series 24.

5. The application is granted as set forth above.

The authority granted herein shall become effective when Azusa pays \$2000, the fee set by Public Utilities Code Section 1904(b). In all other respects, this order is effective today.

Dated AUG 10 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
C. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



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

Victor Weiss
Victor Weiss, Executive Director

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The Refund Note which Azusa proposes to issue in order to refund the outstanding short-term indebtedness would, as provided by the Credit Agreement so long as the requisite Commission approval is obtained, restructure repayment of the outstanding principal balance so that the principal amount would be amortized over seven years and would be repaid in monthly installments. All other terms of the Refund Note, as dictated by the Credit Agreement, would be identical to the Note. Azusa

would continue to be bound by all applicable terms of the Credit Agreement so long as the Refund Note remained outstanding. The deadline under the Credit Agreement for restructuring the outstanding short-term indebtedness is September 1, 1988, the maturity date of the Note.

In support of the application, Azusa states that the extended repayment schedule contained in the Refund Note will provide a less burdensome debt service than it contained in the Note, thereby enhancing Azusa's ability to maintain its system.

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2. The proposed refunding of Azusa's short-term debt and the issuance and sale of its long-term Note is for proper purposes.
3. The proposed refunding would not be adverse to the public interest.
4. The money, property or labor to be procured, or paid for, by the proposed refunding and refinancing by the Refund Note is reasonably required for the purposes specified in the application.
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The following order should be effective on the date of signature and payment of the fee set by Code Section 1904(b) to enable Azusa to proceed with its financings expeditiously.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order and on or before September 30, 1988, Azusa Valley Water Company (Azusa) may restructure the debt evidenced by the unsecured promissory note (the Note) in the manner detailed in the Credit Agreement dated September 17, 1987 and may issue the Refund Note to be effective through September 17, 1988.
2. Azusa may remain subject to the terms of the Credit Agreement for so long as the Refund Note is outstanding.
3. Azusa shall apply the proceeds from any remaining advances under the Credit Agreement to the purposes specified in the application.

4. Azusa shall file with the Commission Advisory and Compliance Division a report, or reports, as required by General Order Series 24.

5. The application is granted as set forth above.

The authority granted herein shall become effective when Azusa pays \$2000, the fee set by Public Utilities Code Section 1904(b). In all other respects, this order is effective today.

Dated _____ at San Francisco, California.