

JACD/KLE

Decision 88 10 051 OCT 26 1988**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA-AMERICAN  
 WATER COMPANY to issue and sell its  
 First Mortgage Bonds not exceeding  
 \$8,000,000 principal amount and to  
 execute and deliver a Supplemental  
 Indenture.

Application 88-09-055  
 (Filed September 28, 1988)

(U 210 W)

**OPINION**Summary of Decision

This decision authorizes California-American Water Company (Cal-Am) the authority requested in the application.

Cal-Am requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851, for the following:

1. To issue, sell and deliver for cash, in one or more series, up to \$8,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds);
2. To execute and deliver a Fifth Supplemental Indenture;
3. To have its proposed New Bonds exempted from the requirements of the Commission's Competitive Bidding Rule under Commission Resolution F-816 and
4. To use the proceeds from the sale of the New Bonds 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 30, 1988. No protests have been received.

Cal-Am, a California corporation, operates as a public water utility subject to the jurisdiction of this Commission.

Cal-Am engages in the sale and distribution of water service in portions of Los Angeles, Ventura, San Diego and Monterey Counties.

For the 12-month period ended June 30, 1988, Cal-Am reported in its Statement of Income and Retained Earnings that it generated total operating revenues of \$35,248,132 and net income of \$4,945,559 shown as part of Exhibit A-1 attached to the application.

Also shown as part of Exhibit A-1 is Cal-Am's Balance Sheet as of June 30, 1988 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$83,578,860
Nonutility Property	68,960
Current Assets	6,663,626
Deferred Charges	<u>1,635,895</u>
Total	\$91,947,341
 <u>Liabilities and Equity</u>	
Common Equity	\$32,996,642
Long-Term Debt	26,472,500
Current Liabilities	11,436,689
Contributions in Aid of Construction	8,099,347
Deferred Credits	<u>12,942,163</u>
Total	\$91,947,341

Cal-Am's Debt Securities

Cal-Am proposes to issue, sell and deliver its New Bonds in the aggregate principal amount up to \$8,000,000, on or before December 30, 1989. The New Bonds are to be issued in accordance with, secured by, and have terms and conditions set forth in the Trust Indenture dated October 1, 1969, executed and

delivered by Cal-Am to the Bank of America, as Trustee. The Trust Indenture has been amended by four prior supplemental indentures which have been filed with the Commission. A Fifth Supplemental Indenture would be executed and delivered with the series of New Bonds and would set forth, among other things, the aggregate principal amount, interest rate, and the maturity date of the series of New Bonds. The Fifth Supplemental Indenture would be substantially similar to other supplemental indentures filed by Cal-Am with the Commission.

Cal-Am has not, at the present time, entered into any contract for the purchase and sale of its New Bonds, nor does Cal-Am have any agreement providing for their issuance. Cal-Am plans to place the New Bonds privately with institutional investors.

Because of recent unstable market conditions, Cal-Am 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, Cal-Am requests Commission authority to offer, issue, sell and deliver the New Bonds with terms and conditions which will provide for the following:

1. Interest rates based upon market conditions existing at the time of negotiating 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 for the periods and in the amount as the bond market will require at the time of sale;
4. Maturities of about 15 years; and
5. Any other provisions that Cal-Am shall deem appropriate in connection with the issuance and sale of its New Bonds that are not inconsistent with the Trust Indenture.

Request for Exemption from Competitive Bidding

Under the provisions of Commission Resolution F-616 dated October 1, 1986, Cal-Am's proposed New Bonds would be exempt from the Commission's Competitive Bidding Rule set forth in Decision (D.) 38614 dated January 15, 1948 in Case 4761, as amended by D. 49941, D. 75556 and D. 81908 because Resolution F-616 exempts financings having an aggregate principal amount of less than \$20,000,000.

Use of Proceeds

Cal-Am proposes to issue and sell its New Bonds for the purpose of discharging its short-term debt obligations and reimbursing its treasury for capital expenditures.

If none of the New Bonds are sold, based upon Cal-Am's projections as of June 30, 1988, Cal-Am's short-term debt is anticipated to be \$9,600,000 as of September 30, 1988 and \$10,200,000 as of December 31, 1988.

Capital Ratios

Cal-Am's capital ratios as of June 30, 1988 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>June 30, 1988</u>	<u>Pro Forma</u>
Long-Term Debt	40.3%	51.1%
Short-Term Debt	<u>9.5</u>	<u>0</u>
Total Debt	49.8	51.1
Common Equity	<u>50.2</u>	<u>48.9</u>
Total	100.0%	100.0%

1. The proposed issuance and sale of up to \$8,000,000 aggregate principal amount of Cal-Am's New Bonds;
2. The Sinking Fund payment during 1988 of \$65,000 and
3. The payoff of short-term debt in the amount of \$6,200,000.

#### Construction Budgets

Cal-Am's construction budgets for the calendar years 1988 and 1989 estimated as of June 30, 1988 amounting to about \$20,444,212 are summarized as follows:

<u>Item</u>	<u>1988</u>	<u>1989</u>
Land, Water Supply Distribution Plant, etc.	\$3,047,400	\$ 2,686,000
Transmission & Distribution Mains, Services, Hydrants, etc.	5,285,367	6,661,351
Meters, Services Minor Main Replacements, Office & Transportation Equipment, etc.	<u>1,360,068</u>	<u>1,404,026</u>
Total	\$9,692,835	\$10,751,377

Cal-Am is placed on notice, by this decision, that the Commission does not find Cal-Am's construction budgets are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

Cal-Am's cash requirements, for the years 1988 and 1989 estimated as of June 30, 1988 and shown as part of Exhibit B and by letter dated September 30, 1988 to the Commission, are shown as follows:

	<u>1988</u>	<u>1989</u>
Funds used and/or Required for Construction Expenditures	\$ 9,774,600	\$10,837,000
Short-Term Debt Outstanding	4,500,000	3,900,000
Sinking Fund Payments	<u>65,000</u>	<u>528,000</u>
Total	\$14,339,600	\$15,265,000
Less: Cash from Internal Sources	<u>4,234,000</u>	<u>4,634,000</u>
Additional Funds Required From Outside Sources	\$10,105,600	\$10,631,000

The CACD has analyzed Cal-Am's cash requirements forecasts for 1988 and 1989 provided in Cal-Am's Supplemental Data attached to the application as Schedule III in Exhibit B. CACD has concluded that internally generated funds will provide about 30% or \$4,234,000 of capital requirements in 1988 and also 30% or \$4,634,000 in 1989. Cal-Am will require additional funds from outside sources amounting to about \$10,105,600 in 1988 and \$10,631,000 in 1989. CACD concludes that Cal-Am's proposed issuance and sale of its New Bonds is necessary to help meet forecasted cash requirements.

The CACD has reviewed Cal-Am's construction budgets and finds that the financing is necessary to fund the proposed construction. The CACD has no objection to Cal-Am's proposed issuance and sale of its New Bonds as requested in the application; however, Cal-Am is placed on notice, by this decision, that the Commission does not find that its 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. Cal-Am, a California corporation, operates as a public water utility under the jurisdiction of this Commission.
2. The proposed issuance and sale of Cal-Am's New Bonds are for proper purposes and are not adverse to the public interest.
3. Cal-Am needs external funds for the purposes set forth in the application.
4. The proposed New Bonds are exempt from the Commission's Competitive Bidding Rule under Commission Resolution F-616.
5. The proposed redemption provisions pertaining to the New Bonds are reasonable.
6. The proposed Supplemental Fifth Indenture is not adverse to the public interest.

7. The money, property or labor to be procured, or paid for, by the proposed New Bonds is reasonably required for the purposes specified in the application.

8. The Commission does not, by this decision, determine that Cal-Am's construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

9. 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 following order.

The proposed New Bonds are for lawful purposes and the money, property or labor to be obtained, or paid for, 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 Cal-Am to issue its New Bonds expeditiously.

**ORDER**

IT IS ORDERED that:

1. California-American Water Company (Cal-Am), on or after the effective date of this order and on or before December 31, 1989, may issue, sell and deliver for cash at one time, or from



time to time, up to \$8,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), in one or more series, by means of negotiated private placements, negotiated public offerings or by competitive bidding, upon terms and conditions substantially consistent with those set forth or contemplated in the application.

2. Cal-Am's New Bonds are exempt from the Commission's Competitive Bidding Rule set forth in Resolution F-616.

3. Cal-Am may execute and deliver one or more supplemental indentures consistent with the terms and conditions set forth in the application.

4. Cal-Am shall file with the CACD three copies of the supplemental indentures.

5. Cal-Am shall determine the specific terms of the New Bonds based on market conditions, at the time of sale.

6. Promptly, after executing the contract of sale of its New Bonds, Cal-Am shall file a copy of the contract and a written report with the CACD showing the interest rate and the cost of money to the company based on the price and interest rate.

7. Within 30 days after their issuance and sale of the New Bonds, Cal-Am shall file, with the CACD, a report setting forth the reason the company believes the resulting interest rate and cost of money were the most advantageous to Cal-Am and its ratepayers.

8. Cal-Am shall apply the new proceeds from the sale of the New Bonds to the purposes set forth in the application.

9. Cal-Am shall file the reports required by General Order Series 24.

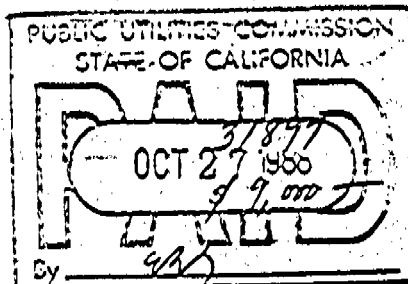
10. The application is granted as set forth above.

The authority granted by this order to issue New Bonds will be effective when Cal-Am pays \$9,000, the fee set by Public Utilities Code Section 1904(b). In all other respects, the order is effective today.

Dated OCT 26 1988, at San Francisco, California.

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

Commissioner G. Mitchell Wilk being necessarily absent, did not participate.



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

*Victor Weisser*  
Victor Weisser, Executive Director



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