

CACD/BVC

Decision 90 05 027 MAY 04 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BAKMAN WATER )  
COMPANY (U 219 W) to borrow )  
not exceeding \$500,000.00 )  
principal amount of long-term )  
debt. )

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Application 90-02-064  
(Filed February 27, 1990)

O P I N I O N

Summary of Decision

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

Bakman requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851, to borrow not exceeding \$500,000 principal amount of long-term debt consisting of a loan from an as yet undetermined lending institution (Lender). Bakman states that it will notify the Commission of the specific Lender at a later date.

Notice of the filing of the application appeared on the Commission's Daily Calendar of March 5, 1990. No protests have been received.

Bakman, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. Bakman provides water service in Fresno County. For the twelve months ended December 31, 1989, Bakman reported total operating revenues of \$461,184 and a net operating loss of \$11,873, as shown in Bakman's 1989 annual report filed with the Commission.

Based on the amounts in the annual report, Bakman's Balance Sheet as of December 31, 1989, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$1,099,494
Current and Accrued Assets	<u>13,270</u>
Total	\$1,112,764
<u>Liabilities and Equity</u>	
Capitalization	\$ 127,457
Long-Term Debt	104,672
Current and Accrued Liabilities	168,852
Deferred Credits (including Advances for Construction)	59,319
Contributions in Aid of Construction	<u>652,464</u>
Total	\$1,112,764

As of December 31, 1989, Bakman's construction expenditures unreimbursed from the issuance of securities and the acquisition of debt amounted to approximately \$782,987, as shown in Exhibit B to the application.

Proposed Long-Term Debt Financing

Bakman proposes to borrow not exceeding \$500,000 principal amount of long-term debt. Bakman anticipates that the new loan would be for a ten year period at one and one half percent over the prime rate with equal monthly loan amortization payments.

At this time, Bakman does not have a contract with a specific Lender. Bakman states that officials of the company will notify the Commission of the specific Lender at a later date.

Use of Proceeds

Bakman proposes to use the proceeds from the loan to improve water quality by constructing two new wells and installing new pipe lines to transmit water to areas of need. Bakman provided a letter from the Department of Health Services (DHS) as Exhibit A-3 which indicated the need for the improvements because of the failure of two wells to comply with the State's new Maximum Contaminant Levels (MCL) for dibromochloropropane (DBCP) and for one well to comply with the new MCL's for nitrates. The Water Branch of the Commission Advisory and Compliance Division (CACD) has confirmed the need to replace the contaminated wells and for the related construction expenditures.

Capitalization Ratios

Bakman's capitalization ratios, recorded as of December 31, 1989, and pro forma, are shown below:

<u>Components</u>	<u>December 31, 1989</u>	<u>Pro Forma</u>
Long-Term Debt	0.0%	58.6%
Short-Term Debt	<u>0.0</u>	<u>0.0</u>
Total Debt	0.0%	58.6%
Common Equity	<u>100.0</u>	<u>41.4</u>
Total	100.0%	100.0%

Bakman's 1989 annual report indicates Long-Term Debt of \$104,672 and Short-Term Debt of \$165,507. However, Bakman has confirmed that these amounts actually represent shareholder loans and are, therefore, considered to be Equity Capital for ratemaking purposes.

Bakman is placed on notice, by this decision, that the Commission does not find that Bakman's capitalization ratios or the inclusion of short-term debt in its capital structure are

necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Construction Budgets

Bakman's construction budgets for calendar years 1990 and 1991 amount to approximately \$500,000 estimated as of February 27, 1990, and are summarized as follows:

	<u>1990</u>	<u>1991</u>
New Wells & Associated Pipeline	<u>\$500,000</u>	<u>\$-0-</u>
Total	\$500,000	\$-0-

The CACD has reviewed Bakman's construction budgets for the calendar years 1990 and 1991 and concludes that the Long-Term Debt is necessary for the purpose stated in the application. However, Bakman is placed on notice, by this decision, that the Commission does not find that Bakman's construction program is necessary, or reasonable, for ratemaking purposes. These are issues normally tested in general rate cases or rate base offset proceedings.

Cash Requirements Forecast

Bakman's cash requirements forecast for 1990, estimated as of February 27, 1990, is as follows:

	<u>1990</u>
Funds Used or Required for Construction Expenditures (Excluding AFUDC)	\$ 500,000
Maturities of Long-Term Debt	-0-
Short-Term Debt Outstanding as of Beginning of Year	-0-
Payables to Associated Companies	<u>165,507</u>
Subtotal	\$ 665,507
Less: Estimated Cash Available from Internal Sources (Excluding AFUDC)	<u>( 19,690)</u>
Additional New Funds Required from Outside Sources	\$ 645,817

The CACD has analyzed Bakman's cash requirements forecast shown above, and concludes that internally generated funds will provide about 3% or \$19,690 of the Capital Requirements for 1990. The CACD concludes that Bakman's proposed Long-Term Debt, as requested in the application, is necessary to help meet forecasted cash requirements. Bakman will need additional cash from outside sources of \$645,817 in 1990.

Findings of Fact

1. Bakman, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. Bakman has need for external funds for the purposes set forth in the application.
3. The proposed Long-Term Debt is for proper purposes.

4. The money, property or labor to be procured or paid for by the Long-Term Debt 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 relief 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 Long-Term Debt is for lawful purposes and the money, property or labor to be obtained by it is required for these purposes. Proceeds from the Long-Term Debt 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 1904.1 to enable Bakman to borrow its Long-Term Debt as expeditiously as possible.

ORDER

IT IS ORDERED that:

1. Bakman Water Company (Bakman), on or after the effective date of this order, may borrow not exceeding \$500,000 principal amount of long-term debt consisting of a loan from a Lender.

2. Bakman shall use the net proceeds from the Long-Term Debt for the purposes specified in the application.

3. Bakman shall file a copy of the loan contract and any other related documents with CACD within 15 days of completion of the loan agreement.

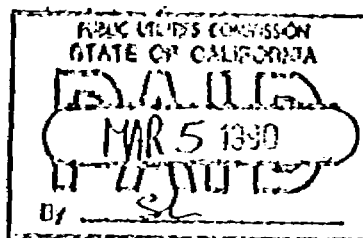
4. Bakman shall file the necessary reports required under General Order No. 24-B of the Public Utility (PU) Code.

5. The application is granted as set forth above.

The authority granted by this order to borrow Long-Term Debt will become effective when Bakman pays \$1000, the fee set by PU Code Section 1904.1. In all other respects, this order is effective today.

Dated MAY 04 1990, at San Francisco, California.

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners



97009619  
\$1,000<sup>00</sup>

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

*Neal J. Schulman*  
-7- NEAL J. SCHULMAN, Executive Director  
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