

Decision 90 05 060 MAY 22 1990

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA-AMERICAN)
WATER COMPANY (U 210 W) to issue)
and sell its First Mortgage Bonds)
not exceeding \$6,000,000 principal)
amount and to execute and deliver)
a Supplemental Indenture.)

Application 90-01-053
(Filed January 26, 1990;
Amended March 14, 1990)

O P I N I O N

Summary of Decision

This decision grants 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 in one or more series, up to \$6,000,000 aggregate principal amount of its First Mortgage Bonds (Debt Securities);
2. To execute and deliver a Sixth Supplemental Indenture;
3. To have its proposed Debt Securities exempted from the requirements of the Commission's Competitive Bidding Rule under Commission Resolution No. F-616; and
4. To use the proceeds from the sale of the Debt Securities 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 February 2, 1990 and March 21, 1990. 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 provides water service to customers in portions of Los Angeles, Ventura, San Diego and Monterey counties.

For the twelve month period ended December 31, 1989, Cal-Am reported that it generated total operating revenues of \$39,337,783 and net income of \$3,169,390 shown as part of Exhibit A-1 attached to the amended application.

Cal-Am's condensed Balance Sheet at December 31, 1989, shown as part of Exhibit B attached to the application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 92,185,176
Other Investments	78,801
Current Assets	5,937,110
Deferred Charges	<u>2,860,356</u>
Total	\$101,061,443
 <u>Liabilities and Equity</u>	
Common Stock Equity	\$ 33,193,469
Long-Term Debt	34,000,000
Current Liabilities	10,886,861
Contributions in Aid of Construction	9,865,782
Deferred Credits	<u>13,115,331</u>
Total	\$101,061,443

Debt Securities

Cal-Am requests authority to issue, sell and deliver the utility's Debt Securities in the aggregate principal amount not to exceed \$6,000,000, on or before July 31, 1990. The Debt Securities 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 five prior supplemental indentures, the forms of which have been filed with the Commission. A Sixth Supplemental Indenture would be executed and delivered with the series of Debt Securities. The Sixth Supplemental Indenture would set forth, among other things, the aggregate principal amount, interest rate, and the maturity date of the series of Debt Securities. The Sixth Supplemental Indenture would be substantially similar to other supplemental indentures filed by Cal-Am with the Commission.

On April 11, 1990, subsequent to the filing of the application, Cal-Am filed a commitment letter which described in detail the terms and conditions of the agreement for the Debt Securities.

Those terms and conditions included the following:

1. A principal amount of \$6,000,000;
2. Maturity of 20 years;
3. An interest rate of 9.71% payable semi-annually;
4. No sinking fund provisions;
5. A call provision starting in the eleventh year. Beginning with that year, the Debt Securities may be prepaid in whole or in part;
6. A mandatory redemption provision that states that upon condemnation or sale of properties or capital stock to a governmental body, the Debt Securities will be redeemable at their principal amount; and
7. Such other terms, covenants, representations and conditions as are usual and customary to such transactions.

Request for Exemption from Competitive Bidding

Under the provisions of Commission Resolution No. F-616, dated October 1, 1986, Cal-Am's proposed issue and sale of the Debt Securities is exempt from the Commission's Competitive Bidding Rule set forth in Decision (D.) 38614, dated January 15, 1946, in Case (C.) 4761, as amended by D.49941, D.75556 and D.81908, because the aggregate principal amount is less than \$20,000,000.

Capital Ratios

Cal-Am's capital ratios at December 31, 1989 and after giving effect to the proposed Debt Securities financing are as follows:

<u>Component</u>	<u>December 31, 1989</u>	<u>Pro Forma</u>
Long-Term Debt	49.0%	56.8%
Short-Term Debt	<u>7.2</u>	<u>0.0</u>
Total	56.2%	56.8%
Common Stock Equity	<u>43.8</u>	<u>43.2</u>
Total	100.0%	100.0%

These capital ratios give pro forma effect to the proposed sale of up to \$6,000,000 aggregate principal amount of Cal-Am's Debt Securities. (Common Stock Equity is net of unamortized balance of acquisition adjustment.)

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

Use of Proceeds

Cal-Am proposes to issue and sell its Debt Securities for the purpose of discharging Cal-Am's short-term debt obligations and reimbursing its treasury for capital expenditures.

If none of the Debt Securities are sold, based upon Cal-Am's projections at December 31, 1989, Cal-Am's short-term debt is anticipated to be \$19,000,000 at December 31, 1990.

Construction Budgets

The Application indicates that Cal-Am is engaged in an extensive construction program and the expenditures required for construction purposes for the recorded year 1989 were \$7,088,668. Based upon the Company's five year forecast, Cal-Am estimates that expenditures required for this construction program for 1990 will approximate \$18,554,693. Cal-Am estimates that internally generated funds will provide approximately 17.8% of the total cash requirements including construction expenditures for 1990.

Cal-Am's construction budget for 1990 is summarized as follows:

<u>Item</u>	<u>1990</u>
Land, Water Supply, Distribution Plant, etc.	\$ 2,120,628
Transmission & Distribution Mains, Services, Hydrants, etc.	15,795,846
Meters, Minor Main Replacements, Office & Transportation Equipment, etc.	<u>628,219</u>
Total	\$18,544,693

The Commission Advisory and Compliance Division (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 Debt Securities 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 ratemaking purposes. These are issues normally tested in general rate cases or rate base offset proceedings.

Cash Requirements Forecasts

Cal-Am's cash requirements, for the year 1990 estimated as of December 31, 1989 and provided as part of Exhibit B are shown as follows:

	<u>1990</u>
Funds used and/or Required for Construction Expenditures	\$21,467,600
Short-Term Debt Outstanding	<u>5,500,000</u>
Total	\$26,967,600
Less: Cash From Internal Sources	<u>(4,793,700)</u>
Additional Funds Required From Outside Sources	\$22,173,900

The CACD has analyzed Cal-Am's cash requirements forecast for 1990 as provided in Cal-Am's Supplemental Data attached to the application as Schedule III in Exhibit B. The CACD has concluded that internally generated funds will provide approximately 17.8% or \$4,793,700 of capital requirements in 1990. Cal-Am will require additional funds from outside sources amounting to approximately \$22,173,900 in 1990. CACD concludes that Cal-Am's proposed issuance and sale of its Debt Securities is necessary to help meet forecasted cash requirements.

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 the Debt Securities 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 Debt Securities are exempt from the Commission's Competitive Bidding Rule under Commission Resolution No. P-616.

5. The proposed redemption provisions pertaining to the Debt Securities are reasonable.

6. The proposed Supplemental Sixth Indenture is not adverse to the public interest.

7. 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.

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

3. The proposed Debt Securities 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.

4. The following Order should be effective on the date of signature and payment of the fee set by PU Code §1904(b), to enable Cal-Am to issue its Debt Securities expeditiously.

O R D E R

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, 1991, may issue, sell, and deliver at one time, or from time to time, up to \$6,000,000 aggregate principal amount of its First Mortgage Bonds (Debt Securities), 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 Debt Securities are exempt from the Commission's Competitive Bidding Rule as set forth in Resolution No. 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 determine the specific terms of the Debt Securities based on market conditions, at the time of sale.

5. Cal-Am shall apply the net proceeds from the sale of the Debt Securities to the purposes set forth in the Application.

5. Within 15 days of execution, Cal-Am shall file with the CACD three copies of the supplemental indenture.

6. Within 15 days after executing the contract of sale of the Debt Securities, 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 utility based on the price and interest rate.

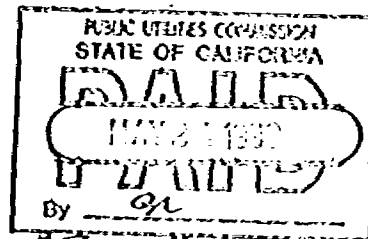
7. Within 30 days after the issuance and sale of the Debt Securities, Cal-Am shall file with the CACD a report setting forth the reasons the utility believes the resulting interest rate and cost of money were the most advantageous to Cal-Am and its ratepayers.

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

10. The Application is granted as set forth above.

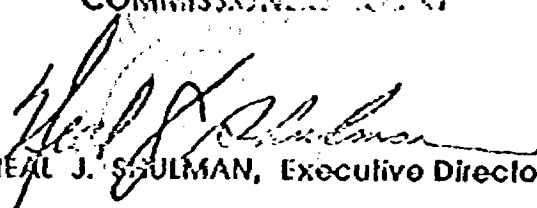
The authority granted by this order to issue Debt Securities will be effective when Cal-Am pays \$7,000, the fee set by PU Code §1904(b). In all other respects, this Order is effective today.

Dated MAY 22 1990, at San Francisco, California.



#7,000²⁵ 133635
G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE
COMMISSIONERS


NEAL J. SULMAN, Executive Director

Commissioner Frederick R. Duda,
being necessarily absent, did
not participate.