

CACD/BVC

Decision 90 05 081 MAY 22 1990

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DEL ESTE WATER)
COMPANY, U 175 W, a corporation)
to issue up to \$4,000,000 in)
aggregate principal of its)
promissory notes and to execute)
and deliver a Supplemental)
Indenture and Security Agreement)

Application 89-10-013
(Filed October 2, 1989;
amended April 4, 1990)

O P I N I O N

Summary of Decision

This Decision grants Del Este Water Company (Del Este) the authority requested in its application.

Del Este requested authority under Public Utilities Code (Code) Sections 818 and 851 to issue up to \$4,000,000 in aggregate principal of its promissory notes and to execute and deliver a Supplemental Indenture and Security Agreement.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 31, 1989. No protests have been filed to date.

Del Este is a corporation organized and existing under and by virtue of the laws of the State of California. It is engaged in the supply and distribution of water for domestic and industrial purposes in the suburban Modesto area and in the communities of Waterford, Empire, Salida, Turlock, Hillcrest, Hickman and Grayson.

For the year ended December 31, 1989, Del Este reported in its Annual Report to the Commission that it generated total operating revenues of \$3,039,469 and net operating income of \$298,762.

Del Este's Balance Sheet as of December 31, 1989 is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 7,817,655
Construction in Progress	1,551,188
Current Assets	829,024
Deferred Debits	<u>780,896</u>
Total	\$10,978,763

<u>Liabilities and Equity</u>	<u>Amount</u>
Stockholder's Equity	\$ 3,460,595
Long-Term Debt	666,000
Notes Payable	2,000,000
Current & Accr. Liab.	484,837
Deferred Credits	3,794,297
Reserves	11,999
Contr. in Aid of Constr.	<u>561,035</u>
Total	\$10,978,763

Promissory Notes

Del Este has proposed to borrow from Pacific Mutual Life Insurance Company (Pacific Mutual) \$4,000,000. Concurrently with the borrowing, Del Este will issue promissory notes (Promissory Notes) for the amount borrowed from Pacific Mutual.

In connection with the proposed borrowings, Del Este signed a letter of intent dated July 13, 1989 with Pacific Mutual. Under the terms of the letter of intent, the Promissory Notes would bear interest at a rate of 10.85% per annum, would have semi-annual level debt payments, would mature in the year 2014 and would not be subject to prepayment except if Del Este's system were condemned. Del Este proposes to issue the Promissory Notes to Pacific Mutual for investment purposes and not for resale to the public. Del Este will furnish the Commission with

a copy of the Supplemental Loan Agreement, pursuant to which the \$4,000,000 loan would be made by Pacific Mutual and Del Este's Promissory Notes issued, as soon as such document is available.

The Promissory Notes would be secured by that certain Mortgage of Chattels and Real Property between Del Este and Pacific Mutual, dated as of March 1, 1951, as supplemented, amended and modified by seven supplemental indentures, and to be further supplemented by a proposed Eighth Supplemental Indenture and Security Agreement. When the Eighth Supplemental Indenture and Security Agreement has been executed, Del Este will furnish the Commission with a copy.

Capitalization Ratios

Del Este's capitalization ratios at December 31, 1989, recorded, and at December 31, 1989, pro forma after giving effect to the proposed issuance of its Promissory Notes in the aggregate principal amount of \$4,000,000 are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 666,000	10.9%	\$4,666,000	57.4%
Notes Payable	2,000,000	32.6	-0-	0.0
Common Stock (including all surplus)	3,460,595	56.5	3,460,695	42.6
Totals	\$6,126,595	100.0%	\$8,126,695	100.0%

Del Este is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Construction Budgets

Del Este's estimated construction budgets for calendar years 1989, 1990 and 1991 are summarized below:

<u>Components</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Service and Operational	\$ 145,500	\$ 145,000	\$ 153,500
Water Supply (Routine)	86,000	296,600	407,600
Water Supply (Water Quality)	<u>1,276,000</u>	<u>702,000</u>	<u>626,000</u>
Total	\$1,507,500	\$1,143,600	\$1,187,100

Del Este estimates that it will spend \$3,837,200 for the construction, completion, extension and improvement of its facilities during the 1989-1991 period. In addition to the foregoing capital additions, Del Este estimates it will spend approximately \$3.5 million in the next 12 to 24 months on new facilities required to treat water pumped from at least 12 wells so that it meets the recently lowered maximum contaminant levels set for DBCP (dibromochloropropane) by the California Department of Health Services (DHS).

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

Cash Requirements Forecasts

Del Este's cash requirements forecast for 1989, 1990, and 1991 is summarized as follows:

<u>Components</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
<u>Source</u>			
Net Income	\$ 213,266	\$ 281,695	\$ 300,000
Depreciation	276,033	303,363	320,000
Cash Balance			
Forward 12-31-88	182,391	250,000	(145,000)
Unamortized Debt Expense	1,320	30,000	30,000
Proceeds from Financing	<u>2,759,000</u>	<u>4,000,000</u>	<u>-0-</u>
Total	\$ 3,432,010	\$ 4,865,058	\$ 505,000
<u>Application</u>			
Dividends	\$ 85,300	\$ 240,000	\$ 240,000
Advance Refunds	90,000	100,000	252,000
Debt Principal	1,454,000	50,000	50,000
Unused Subdivider Adv.	100,000	50,000	-0-
Taxes on C.I.A.C.	140,000	525,000	250,000
Company Funded Capital Improvements	1,000,000	920,000	859,500
DBCP Abatement	-0-	1,125,000	1,125,000
Conversion of Short-Term Debt	<u>-0-</u>	<u>2,000,000</u>	<u>-0-</u>
Total	\$ <u>2,869,300</u>	\$ <u>5,010,000</u>	\$ <u>2,776,500</u>
Cash Flow	\$ 562,710	\$ (144,942)	\$ (2,271,500)

The CACD has analyzed Del Este's cash requirements forecast for 1989, 1990 and 1991 as provided in the above summary. The CACD has concluded that internally generated funds will provide about -4.4% or \$-99,942 of the capital requirements in 1990 and -12.4% or \$-287,000 in 1991. The CACD concludes that the proposed issuance of Del Este's promissory notes is necessary to help meet forecasted cash requirements which includes capital expenditures.

The CACD has reviewed the application and has concluded that the proposed issuance of Del Este's promissory notes is reasonable and that the authority should be granted.

Revolving Credit Line

Del Este has an unsecured Revolving Line of Credit with Wells Fargo Bank for the short-term financing of capital improvements. Del Este stated that at June 30, 1989 it owed Wells Fargo Bank approximately \$895,000 under its Revolving Line of Credit. As of December 31, 1989, its indebtedness to Wells Fargo Bank has increased to \$2,000,000.

Use of Proceeds

Del Este has proposed to use the net proceeds derived from the issuance of the Promissory Notes for the construction, completion, extension and improvement of its facilities, to pay off entirely its outstanding indebtedness to Wells Fargo Bank under the Revolving Line of Credit and to reimburse Del Este's treasury for a portion of moneys actually expended from income, or from other moneys in the treasury, prior to December 31, 1988 for capital improvements.

Exemption from Competitive Bidding Rule

Del Este argues that since the aggregate principal amount of the Promissory Notes which Del Este proposes to issue is less than \$20,000,000, the issuance and sale is exempt from the requirements of the Commission's competitive bidding rule set forth in its D.38614, as amended by D.49941, D.75556, and D.81908, and by Resolutions F-591 and F-616.

CACD has reviewed Del Este's request and has determined that the exemption is warranted and recommends that Del Este's request be granted. We concur with CACD's recommendation.

Findings of Fact

1. Del Este, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. Del Este has need for external funds for the purposes set forth in the application.

3. The proposed Promissory Notes are for proper purposes.
4. The money, property or labor to be procured, or paid for, by the proposed Promissory Notes is reasonably required for the purposes specified in the application.
5. Debt issues of less than \$20,000,000 are exempt from the requirements of the Commission's competitive bidding rule set forth in its D.38614, as amended by D.49941, D.75556, and D.81908, and by Resolutions F-591 and F-616.
6. There is no known opposition 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 Promissory Notes are for lawful purposes and the money, property or labor to be obtained thereby is required for these purposes. Proceeds from the issuance of the Promissory Notes may not be charged to operating expenses or income.

The following order shall be effective on the date of signature and payment of a fee of \$5,000 set by Section 1904(b) of the Code.

O R D E R

IT IS ORDERED that:

1. Del Este Water Company (Del Este), on or after the effective date of this order, may issue, sell and deliver up to \$4,000,000 in aggregate principal amount of its promissory notes and to execute and deliver a Supplemental Indenture and Security Agreement.

2. Del Este shall apply the net proceeds from the issue of the securities for the purposes set forth in the application.

3. Del Este shall file, with the CACD, copies of the Supplemental Loan Agreement and the Eighth Supplemental Indenture and Security Agreement 15 days after the documents have been executed.

4. Del Este shall file the reports required by General Order Series 24.

5. This application is granted as set forth above.

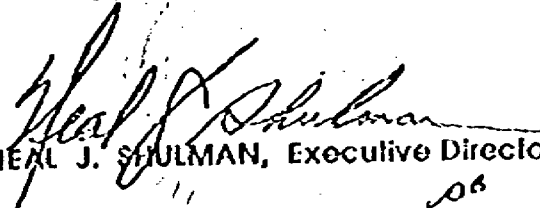
The authority granted by this order to issue the promissory notes will become effective when Del Este pays \$5,000, the fee set by Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated MAY 22 1990, at San Francisco, California.

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

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

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


NEAL J. SHULMAN, Executive Director

