CACD/BVC

Decision 90-11-074 November 21, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

| | | |
|---|---|---|
| Application of PARK WATER COMPANY (U 314 W) for authority to issue evidence of indebtedness (First Mortgage Bonds) | ) ) ) ) ) | Application 90-09-038 (Filed September 12, 1990) |

## O P I N I O N

Summary of Decision

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

Park requests authority, under Sections 816 through 830 and 851 of the California Public Utilities Code (PU Code), for the following:

1. To issue, sell and deliver as a private placement, not to exceed $4,500,000 aggregate principal amount of Park's First Mortgage Bonds (Bonds); and

2. To issue the Bonds under the provisions of Park's existing supplemental indenture (Supplemental Indenture).

Notice of the filing appeared on the Commission's Daily Calendar of September 24, 1990. No protests have been received.

Park is a corporation organized and existing under the laws of the State of California, and is engaged in the operation of a public utility water system in the southeastern and northeastern sections of Los Angeles County subject to the jurisdiction of the Commission. Park has two wholly-owned subsidiaries in California: Santa Paula Water Works, Ltd., engaged in the operation of a public utility water system in and around the city of Santa Paula in Ventura County; and Apple

Valley Ranchos Water Company (Apple Valley Ranchos), engaged in the operation of a public utility water system in and near the town of Apple Valley in San Bernardino County.

For the 12 months ended December 31, 1989, Park reported that it generated total operating revenues of $18,664,000 on a consolidated basis, and net operating income of $1,062,000, as shown in Park's supplemental data filed with the application.

Also shown as part of the supplemental data is Park's consolidated Balance Sheet as of December 31, 1989 which is summarized below:

| Assets | Amount |
|---|---|
| Net Plant (including CWIP) | $42,490,000 |
| Non-Utility Property & Investments | 1,226,000 |
| Current Assets | 7,679,000 |
| Deferred Charges | 554,000 |
| Total | $51,949,000 |

| Liabilities and Equity | Amount |
|---|---|
| Stockholders' Equity | $23,464,000 |
| Long Term Debt | 5,398,000 |
| Current Liabilities | 5,255,000 |
| Other Liab. & Defer. Credits | 17,832,000 |
| Total | $51,949,000 |

Description of Financing

Park seeks authority to issue its First Mortgage Bonds (Bonds) in the aggregate principal amount of $4,500,000. The Bonds will be substantially in the form attached to the application as Exhibit B, and will be issued on a negotiated private placement basis to Pacific Mutual Life Insurance Company which currently holds the majority of Park's outstanding Mortgage Bonds.

Park proposes to issue $3,000,000 of the Bonds approximately thirty (30) days after receiving the Commission's authorization, and to issue the remaining $1,500,000 approximately twelve (12) months later.[4] The Bonds will have an interest rate to be set at the time of issuance at 225 basis points above the interpolated 25-year Treasury Bond rate existing at that time. They will have an average life of 15.99 years with the last Bond maturing 25 years after issuance. These terms are set out in a letter of commitment signed by Park and Pacific Mutual Life Insurance Company, which is attached to the application as Exhibit C.

The Bonds will be secured by and issued under the provisions of Park's existing indenture (Indenture), authorized in the Commission's Decision (D.) 82708, as supplemented. Appendix A, attached to Application (A.) 54735, sets forth a draft indenture substantially in the form of the Indenture.

In A.87-10-022, Park stated that it serves as the borrowing agent for all its divisions and subsidiaries and transfers capital as needed to the divisions and subsidiaries to benefit from Park's greater borrowing power and obtain debt at a lower cost.

The Indenture provides an interest coverage test that must be met to allow Park to acquire additional debt. As of June 30, 1990, earnings for the most recent twelve (12) months were not sufficient to provide the coverage necessary to allow Park to issue the entire $4,500,000 of the Bonds and, in fact, just fell short of meeting the required coverage test for the issuance of $3,000,000 of the Bonds. This is primarily due to heavy losses incurred by Park's subsidiary Apple Valley Ranchos in 1989 which continued until a rate increase was granted by the Commission in D.90-02-045 on February 23, 1990.

Though Park expects to be able to meet the coverage test for the issuance of $3,000,000 of the Bonds by the end of this year, Park's ability to meet the coverage test for the entire $4,500,000 at that time is uncertain since: a) the rate increase granted to Apple Valley Ranchos in 1990 was not the full amount necessary to provide the adopted rate of return due to the Commission's policy of "capping" increases at 50% of present rate revenues and deferring any increase above that amount to the following year, and b) revenues for 1990 to date in all Park's California divisions and subsidiaries are lower than projected and lower than 1989 levels due to drought related conservation; the eventual magnitude and duration of the impact of this conservation on revenues as well as the potential for recovery of lost revenues through regulatory procedures are not known at this time.

The two-stage, delayed draw down bond issue proposed by Park will allow it to issue bonds now without conflict with the lending threshold of its lender ($3,500,000) and without violating the terms of the Indenture. In addition, since this is regarded as one issue and there are no issuing costs related to the second draw down, the effective cost of the debt will be less than if Park had to obtain this debt through more than one borrowing.

Competitive Bidding Rule

Under the provisions of Commission Resolution F-616 dated October 1, 1986, Park's proposed issue and sale of the Bonds is exempt from the Commission's Competitive Bidding Rule because the aggregate principal amount is less than $20,000,000.

## Capital Budget

A summary of Park's capital budget, excluding Advances and Contributions in Aid of Construction, for 1990, 1991, and 1992 follows:

| Item | 1990 | 1991 | 1992 |
|---|---|---|---|
| Main Office | $ 129,400 | $ 142,700 | $ 114,200 |
| Central Basin | 763,000 | 777,000 | 786,000 |
| Apple Valley Ranchos | 1,201,928 | 1,275,000 | 1,165,000 |
| Santa Paula W. W. | 307,800 | 305,900 | 383,000 |
| Total | $2,402,128 | $2,500,600 | $2,448,200 |

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Park's capital improvement program. CACD concludes that the proposed financing is necessary for Park's capital improvement program; however, Park is placed on notice, by this decision, that the Commission does not find that its capital budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

## Capitalization Ratios

Park's capitalization ratios on a consolidated basis at June 30, 1990, are shown below as recorded and adjusted to give *pro forma* effect to the transactions that follow:

| | Recorded | | Pro Forma | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Common Equity | $17,857,808 | 83.0% | $17,857,808 | 68.7% |
| Long-Term Debt | 3,651,347 | 17.0 | 8,151,347 | 31.3 |
| Totals | $21,509,155 | 100.0% | $26,009,155 | 100.0% |

Park 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.

Cash Requirements Forecast

Park's cash requirements forecast for 1990, is summarized as follows:

| Components | 1990 |
|---|---|
| Funds Needed for Construction Expenditures | $3,469,000 |
| Long-Term Debt Maturities | 1,149,000 |
| Less: | |
| Estimated Cash from Internal Sources | $2,244,000 |
| Additional Funds Required from Outside Sources | $2,374,000 |

CACD has analyzed Park's cash requirements forecast for 1990. CACD has concluded that internally generated funds will provide $2,244,000 or 48.6% of Park's cash requirements for 1990. CACD concludes that the proposed issuance of Park's Debt Securities is necessary to help meet forecasted cash requirements which includes construction expenditures. CACD has reviewed the application and has concluded that the proposed issuance of the Debt Securities is reasonable and that the authority should be granted.

Use of Proceeds

D.87-12-001 authorized Park to borrow $3,500,000 and noted that Park proposed to use the proceeds to fund the construction of certain capital projects in its California divisions and subsidiaries totaling $1,547,500 in 1987, $1,085,500 in 1988, and $1,097,000 in 1989.

Although the total of these specific projects that were to be funded by the borrowing in 1988 and 1989 was $2,182,500, the total capital expenditures incurred by Park's California divisions and subsidiaries for the period 1988, 1989 and through June 30, 1990, amounted to $6,938,800. These specific projects did not constitute all of the necessary budgeted capital expenditures but were only those projects associated with new wells and new or replacement mains. The $4,756,300 expended above and beyond the proceeds obtained from the prior borrowing were funded from Park's earnings and its treasury. Park's cash reserves are now significantly depleted and Park, therefore, proposes to issue $4,500,000 in bonds to reimburse its treasury for these expenditures.

## Findings of Fact

1. Park, a California corporation, operates as a water utility subject to the jurisdiction of this Commission.
2. Park has need for external funds for the purposes set forth in the application.
3. The execution of the proposed Loan Contract, Agreement, and the Mortgage Notes would not be adverse to the public interest.
4. The issuance of the proposed Mortgage Bonds is for proper purposes.
5. The money, property, or labor to be procured or paid for by the proposed Mortgage Bonds is reasonably required for the purposes specified in the application.
6. There is no known opposition and there is 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.

3. The following order shall be effective on the date of signature and payment of the fee under §1904(b) of the PU Code, to enable Park to proceed with its financing expeditiously.

4. The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

## O R D E R

IT IS ORDERED that:

1. Park Water Company (Park), on or after the effective date of this order and on or before December 31, 1991, may issue, sell and deliver its First Mortgage Bonds (Bonds) in an aggregate principal amount not to exceed $4,500,000, in accordance with the terms and conditions as described in the application.

2. Park may secure the Bonds under the provisions of its existing Supplemental Indenture.

3. Park shall apply the net proceeds of the sale of the Bonds for the purposes set forth in the application.

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

5. The application is granted as set forth above.

6. The authority granted by this order to issue a Mortgage Note will become effective when Park pays $5,500, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated November 21, 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