

Decision 90-11-075 November 21, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of AZUSA VALLEY)
WATER COMPANY (U-235-W) for)
an Order Authorizing the Re-)
tirement and Refinancing of)
Certain indebtedness and the)
Financing of Certain Capital)
Improvement Projects)

ORIGINAL

Application 90-09-069
(Filed September 27, 1990)

O P I N I O N

Summary of Decision

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

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

1. To issue to Wells Fargo Bank, National Association (Wells Fargo), a Promissory Note (Note) in the aggregate principal amount of \$2,100,000, and to retire and refinance its existing Note;
2. To execute with Wells Fargo a two year Term Commitment (Commitment) under which Wells Fargo will make advances to Azusa from time to time up to and including November 1, 1992, not to exceed the aggregate principal amount of \$2,400,000, the proceeds of which will be used to finance certain capital improvement projects as described in the application; and
3. To convert the Commitment, upon expiration, to a 10 year Term Loan (Loan), the terms of which shall be identical to those of the Commitment.

Notice of the filing appeared on the Commission's Daily Calendar of October 10, 1990. No protests have been received.

Azusa is a corporation organized and existing under the laws of the State of California, and is engaged in the sale and distribution of water to domestic, municipal and agricultural customers within the limits of the Cities of Azusa, Covina, Glendora, Irwindale, West Covina and the area of Los Angeles County lying between these cities. Azusa's operations also necessarily involve the collection, storage and processing of natural waters.

For the 12 months ended December 31, 1989, Azusa reported that it generated total operating revenues of \$2,816,681, and net operating income of \$604,722, as shown in Exhibit A-2 to the application.

Also shown as part of Exhibit A-2 is Azusa's Balance Sheet as of December 31, 1989 and which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant (including CWIP)	\$7,501,220
Current Assets	1,214,020
Other Assets	<u>121,618</u>
Total	\$8,836,858
<u>Liabilities and Equity</u>	<u>Amount</u>
Stockholders' Equity	\$3,390,154
Preferred Stock	646,400
Long-Term Debt	1,978,573
Current Liabilities	756,570
Contr. In Aid of Constr.	791,893
Other Liab. & Defer. Credits	<u>1,273,268</u>
Total	\$8,836,858

Description of Financing

Azusa seeks authority to execute with Wells Fargo a Loan Agreement (Agreement) involving a loan in the amount of \$2,100,000 and a Commitment in the amount of \$2,400,000. The aggregate principal amount of the funds to be borrowed by Azusa under the Agreement will not exceed \$4,500,000.

At the closing of the loan, Azusa will issue a Note to Wells Fargo in the principal amount of \$2,100,000, bearing interest at the rate of $3/4$ of 1% above Wells Fargo's prime rate in effect from time to time. The principal amount of the loan will be repaid in 120 monthly installments based on an amortization schedule of not more than 30 years. Pursuant to the Commitment, Wells Fargo will make advances to Azusa from time to time up to and including November 1, 1992, not to exceed the aggregate principal amount of \$2,400,000. Upon expiration, the Commitment, along with the outstanding balance shall be converted to a ten year loan, the terms of which shall be identical to those of the current Loan. Funds advanced by Wells Fargo under the Commitment from time to time during its term may not exceed \$2,400,000 in the aggregate, exclusive of interest.

Capital Budget

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

<u>Components</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
4 MG reservoir, incl. land	\$ -0-	\$ -0-	\$1,750,000
Retrofit No. 1 filter unit	-0-	-0-	250,000
Filtration plant chlor. scrubber system	-0-	100,000	-0-
Water quality monitor. sys.	-0-	75,000	-0-
Meter replace. program	50,000	50,000	50,000
Misc. sys. improve.	50,000	50,000	50,000
Underground storage tank	40,000	-0-	-0-
Telemetry equipment	-0-	40,000	-0-
Trans. equip.	26,500	14,050	14,900
Chlorinators & Analyzer	15,515	-0-	-0-
Mobile radios	3,700	1,970	2,100
New metered serv.	3,000	3,000	3,000
Tools & work equip.	1,000	1,000	1,000
System mapping costs	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total	\$194,715	\$340,020	\$2,126,000

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Azusa's capital improvement program. CACD concludes that the proposed financing is necessary for Azusa's capital improvement program; however, Azusa 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

Azusa's capitalization ratios at September 30, 1990, are shown below as recorded and adjusted to give *pro forma* effect to the transactions that follow:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$1,871,400	31.0%	\$4,479,000	52.2%
Preferred Stock	646,400	10.7	646,000	7.5
Common Equity	<u>3,513,300</u>	<u>58.3</u>	<u>3,456,000</u>	<u>40.3</u>
Total	\$6,031,100	100.0%	\$8,581,000	100.0%

Azusa 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

Azusa's cash requirements forecast for 1990, 1991, and 1992, is summarized as follows:

<u>Components</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Funds Needed for			
Constr. Expenditures	\$ 194,715	\$ 340,020	\$2,126,000
Long-Term Debt Matur.	<u>212,857</u>	<u>1,978,571</u>	<u>-0-</u>
	\$ 407,572	\$2,318,591	\$2,126,000
Less:			
Estimated Cash from			
Internal Sources	<u>717,725</u>	<u>637,266</u>	<u>461,900</u>
Additional Funds Req.			
from Outside Sources	\$ (310,153)	\$1,681,325	\$1,664,100

CACD has analyzed Azusa's cash requirements forecast for 1990, 1991, and 1992. CACD has concluded that internally generated funds will provide \$717,725 or 176.1% of Azusa's cash requirements for 1990, \$637,266 or 27.5% for 1991, and \$461,900 or 21.7% for 1992. CACD concludes that the proposed issuance of Azusa'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

Proceeds of the Loan will be applied to the redemption of all outstanding First Mortgage, Series A, 13-1/2% Bonds (Bonds) in the principal amount of \$1,300,000, secured by Indenture of Mortgage and Deed of Trust (Trust Indenture) first executed with Wells Fargo, as Trustee, as of October 1, 1980, and to the retirement and refinancing of certain unsecured debt in the principal amount of \$702,381, evidenced by an Unsecured Promissory Note (Note), issued to Wells Fargo on September 1, 1988, pursuant to a Credit Agreement, as amended, executed with Wells Fargo as of September 17, 1987.

The Bonds were issued and sold pursuant to order of the Commission on December 16, 1980 in Decision (D.) 92531, from Application (A.) 60008, filed October 10, 1980. Proceeds from the sale of the Bonds were used for the purposes described in D.92531. Under the terms of the Indenture, the Bonds are repaid with annual sinking fund payments in the amount of \$70,000 and semi-annual payments of interest at 13-1/2% on the unpaid principal amount, until and including October 1, 2000.

Certain terms of the Indenture prohibit Azusa from redeeming the Bonds out of proceeds of borrowed money having an interest rate or effective cost less than 13-1/2% at any time prior to October 1, 1990. Azusa proposes to redeem all outstanding Bonds on or after October 1, 1990 because the repayment schedule of the Loan will provide a less burdensome debt service than that of the Indenture.

The Note was issued to Wells Fargo pursuant to order of the Commission on August 10, 1988 in D.88-08-004, from A.88-05-054, filed May 31, 1988. Proceeds of the Note were used for the purposes described in D.88-08-004. The terms of the Note call for repayment of principal in equal monthly installments of

\$11,905, plus interest on the unpaid principal amount at an annual rate of $3/4$ of 1% above Wells Fargo's prime rate in effect from time to time, until and including September 1, 1995. Azusa proposes to retire the Note, consolidating the debt with borrowings contemplated in the application, because the extended repayment schedule of the Loan will provide a less burdensome debt service than that of the Note. The rate of interest charged by Wells Fargo under the terms of the Loan will remain unchanged from that of the Note.

Funds advanced by Wells Fargo under the Commitment will be used to finance the construction and/or acquisition of certain capital improvements, described in greater detail below, if and as the respective capital improvement projects may develop.

This refinancing plan was undertaken at the request of Staff of the Financial and Economic Analysis Branch of the Division of Rate Payer Advocates (DRA), in A.90-03-015, presently before the Commission. Further, this refinancing plan forms the basis of DRA's evaluation of Azusa's capital structure and cost of debt and leads to its recommended rate of return for Azusa in that proceeding.

Among the intended capital improvements to be financed by the proceeds of the Commitment is the retrofitting of the No. 1 filter unit of Azusa's Canyon Filtration Plant (Plant) with a Hardinge Filter Unit of the same technology as that of the Plant's newer No. 2 filter unit. The No. 1 filter unit, an original component of the Plant, was placed in service in 1963 and has already surpassed its designed operational life. The No. 2 filter unit, of more recent technology, was added to the Plant in 1988. However, the State Department of Health Services (DHS) has informed Azusa that more stringent water quality standards for treated surface waters, as promulgated by the U.S. Environmental Protection Agency, are soon to be adopted by DHS under Title 22 of the California Water Code. In connection with Azusa's proposed filter unit modification, DHS has advised that the intrinsic technology, not among the four filtration

methodologies presently accepted by DHS, is considered unconventional and therefore its effectiveness in purifying surface waters under the revised water quality standards is uncertain.

Although the Plant has shown to be effective in purification of surface waters under existing water quality standards, DHS requires that the Plant's effectiveness, as measured against revised water quality standards, be demonstrated and documented. Azusa will conduct a one year study of the No. 2 filter unit, monitoring the effluent quality against the revised water quality standards to evaluate and document the effectiveness of this filtration technology.

James M. Montgomery Engineers, Inc. (JMM), in their proposal to administer the one year water quality monitoring program, has indicated a cost of \$72,000. In a separate document, recommending that the aged filter unit be upgraded, JMM has provided a cost estimate of \$290,000, including engineering, material and construction, to retrofit the No. 1 filter unit. Azusa considers these figures credible and has employed them as the basis of cost estimates for planning purposes.

Whether or not the water quality monitoring program yields positive results, major improvement to Azusa's source of supply system will have to be developed. Such alternatives might include, but are not limited to, alternative filtration technology, new connection(s) to the Metropolitan Water District system, or possibly, development of wellhead treatment systems in order to reactivate certain wells which have been taken out of service due to unacceptable levels of groundwater contamination.

In addition to mandated improvements to the water treatment system, other major improvements to the water system are deemed essential to maintaining the system's viability and adequacy under continually growing demands imposed by such factors and events as elevated water quality standards,

environmental hazards, increasing population density, and prolonged periods of drought, among other things. Among the improvements contemplated, the most significant include:

- o The construction of a 4.0 million gallon reservoir; to ensure adequate emergency storage, to provide extended disinfection time for treated water, and to enhance the operability of the filtration plant, the most economical source of supply, by providing storage for water treated during off-peak demand periods. The addition of the proposed reservoir will also ease the burden presently placed on the system of continuous operation at near-maximum capacity.
- o The installation of a chlorine scrubber system at the Canyon Filtration Plant; to minimize the public health hazard in the event of a chlorine gas spill.
- o The upgrading of the existing telemetering system; to improve reliability, thus increasing efficiency in the utilization of certain wells and reservoirs.
- o The replacement of the existing underground gasoline storage tank; to minimize the risk of tank failure and the resultant environmental damage.

Findings of Fact

1. Azusa, a California corporation, operates as a public water utility under the jurisdiction of this Commission.
2. The proposed financing is for proper purposes and is not adverse to the public interest.
3. Azusa needs external funds for the purposes set forth in the application.
4. The money, property, or labor to be procured, or paid for, by the proposed financing is reasonably required for the purposes specified in the application.

5. 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 financing is for lawful purposes and the money, property, or labor to be obtained, or paid for, by it is required for these purposes. Proceeds from the financing 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 Azusa to proceed with its financing expeditiously.

O R D E R

IT IS ORDERED that:

1. Azusa Valley Water Company (Azusa), on or after the effective date of this order and on or before December 31, 1992, is authorized to do the following:
 - a. To issue to Wells Fargo Bank, National Association (Wells Fargo), a Promissory Note (Note) in the aggregate principal amount of \$2,100,000, and to retire and refinance its existing Note;
 - b. To execute with Wells Fargo a two year Term Commitment (Commitment) under which Wells Fargo will make advances to Azusa from time to time up to and including November 1, 1992, not to exceed the aggregate principal amount of \$2,400,000;

c. To convert the Commitment, upon expiration, to a 10 year Term Loan (Loan), the terms of which shall be identical to those of the Commitment.

2. Azusa shall apply the net proceeds of the financing for the purposes set forth in the application.

3. Azusa shall file copies of the Loan Agreement, and any other related documents within 15 days of execution of those documents.

4. Azusa 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 the financing will become effective when Azusa pays \$3,498, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

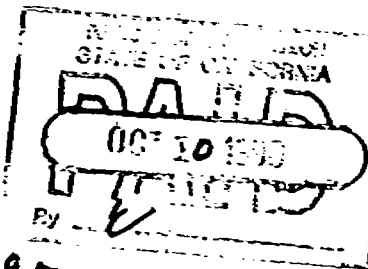
Dated November 21, 1990, at San Francisco, California.

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

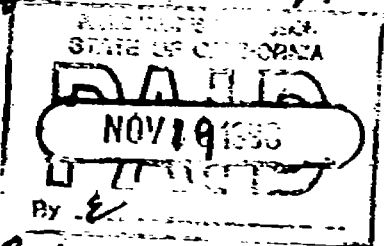
Commissioner Frederick R. Duda
being necessarily absent, did
not participate.

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

Neal J. Spulman
NEAL J. SPULMAN, Executive Director



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