

CACD/RAX

Decision **91 11 061** NOV 20 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
Borrego Springs Water Company (U-387-W) )  
a California Corporation, for authority ) Application 91-05-055  
to borrow \$125,000 and to issue a note ) (Filed May 28, 1991)  
under Sections 816-830 of the Public )  
Utilities Code. )

O P I N I O N

Summary of Decision

This decision grants Borrego Springs Water Company (Borrego) the authority requested in Application 91-05-055 (Application).

Borrego requests authority under §§816-830 and 851 of the California Public Utilities Code (PU Code) for the following:

1. To borrow \$125,000 principal amount of long-term debt consisting of a loan from the Union Bank of Borrego Springs (Union Bank), Borrego Springs, California.
2. To use the proceeds for said indebtedness for the purposes set forth in the Application.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of May 31, 1991. No protests have been received.

Borrego Springs Water Company, a California corporation, is engaged in the retail water business in the town of Borrego Springs, San Diego County.

For the twelve months ended December 31, 1990, Borrego reported that it generated total operating revenues of \$466,234 and net operating income of \$15,333 as shown in Attachment B of the Application.

Also shown as a part of Attachment B is Borrego's condensed balance sheet as of December 31, 1990, summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant in Service	\$1,132,999
Construction in Progress	3,190
Current Assets	276,126
Other Assets	<u>138,521</u>
Total	\$1,550,836
<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$ 894,277
Long-Term Debt	221,668
Current Liabilities	196,049
Other Liabilities/Deferred Credits	<u>238,842</u>
Total	\$1,550,836

Proposed Financing

Borrego seeks authority to borrow \$125,000 principal amount in long-term debt consisting of a loan from the Union Bank. The proposed loan agreement attached to the Application as Exhibit E states that the loan will be for the period of five years with an interest rate of one and one half (1-1/2) percent over the bank's reference rate, with quarterly principal payments due September 1, 1991, and continuing quarterly until June 1, 1996, with principal amounts outstanding payable in full. Interest payments are due monthly and extend from April 1, 1991, to June 1, 1996.

Capitalization Ratios

Borrego's capitalization ratios at December 31, 1990, are summarized below as recorded and adjusted to give pro forma effect to the proposed financing. These figures are calculated

with the exclusion of the funds from the Safe Drinking Water Bond Act (SDWBA) loan, which by Commission guidelines are not included in the rate base, but do give effect to the proposed long-term debt financing.

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Long-Term Debt	\$ -0-	0.0%	\$ 125,000	12.3%
Common Equity	<u>894,277</u>	<u>100.0</u>	<u>894,277</u>	<u>87.7</u>
Total	\$894,277	100.0%	\$1,019,277	100.0%

Borrego 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.

#### Use of proceeds

Decision (D.) 86-12-024, dated December 3, 1986, directs Borrego to take measures to reduce water loss on its system. Proceeds of the loan will be used for the expansion and upgrading of transmission lines and to improve the production capacity of Borrego's facilities in an effort to reduce water losses and comply with D.86-12-024.

#### Construction Budget

Borrego's construction program for 1991 consists of expansion and upgrades of the transmission lines and pump replacement to improve the production capacity of the system. The upgrades to the system include installation of approximately 20,900 feet of 6 inch PVC pipe and replacement of the Well 2 pump. Borrego estimates the cost of its 1991 construction

program, including administration and engineering fees, to be \$125,000.

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

Cash Requirements Forecast

Borrego's cash requirements forecast for 1991 is summarized as follows:

<u>Components</u>	<u>1991</u>
Funds Needed for Construction Expenditures	\$125,000
Increase in Cash Reserve	<u>0</u>
Total Funds Needed	\$125,000
Less: Estimated Cash Available from Internal Sources	<u>52,144</u>
Additional Funds Required from Outside Sources	\$ 72,856

CACD has analyzed Borrego's cash requirements forecasts for 1991 and has concluded that the proposed borrowing of the funds by Borrego is necessary to meet forecasted cash requirements. CACD has reviewed the Application and has concluded that the proposed financing is reasonable and that the authority should be granted.

Findings of Fact

1. Borrego, a California Corporation, operates as a water utility subject to the jurisdiction of this Commission.
2. Borrego has need for external funds for the purposes set forth in the Application.
3. The proposed financing program, as outlined in the Application, is for proper purposes and is not adverse to the public interest.
4. The money, property or labor to be obtained, or paid for by the proposed financing is reasonably required for the purposes specified in the application.
5. The Commission does not find that the company's construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.
6. There is no known opposition and there is no reason to delay granting the authority requested.
7. Borrego has paid all applicable fees as required by Public Utilities Code §§1904(b).

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 financing agreement is for lawful purposes and the money, property or labor to be obtained 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 to enable Borrego to proceed with its financing expeditiously.

ORDER

IT IS ORDERED that:

1. Borrego Springs Water Company (Borrego), on or before December 31, 1991, is authorized to borrow \$125,000 principal amount of long-term debt consisting of a loan from the Union Bank of Borrego Springs, Borrego Springs, California.

2. Borrego may execute any and all related documents required for completion of the proposed financing.

3. Borrego shall submit to the Commission Advisory and Compliance Division three copies of all necessary documentation required in connection with the execution of the loan agreement within 15 days of the execution of the documents.

4. Borrego shall use the net proceeds from the loan for the purposes specified in the application.

5. Borrego shall file the reports required by General Order Series 24.

6. The Application is granted as set forth above.

The authority granted by this order to borrow \$125,000 principal amount of long term debt is effective today.

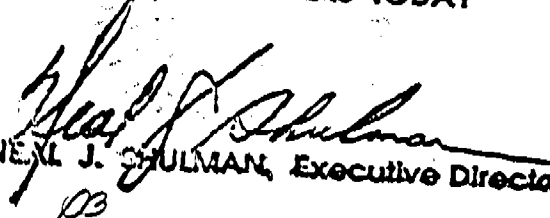
Dated NOV 20 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
DANIEL Wm. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

Commissioner John B. Ohanian,  
being necessarily absent, did  
not participate.

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

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NEIL J. SHULMAN, Executive Director  
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