

Decision No. 86850**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 California-American Water Company )  
 for authority to execute a loan )  
 agreement and to issue a promissory )  
 note in the amount of \$4,000,000. )

Application No. 56936  
 (Filed December 13, 1976)

O P I N I O N

California-American Water Company seeks authority to execute a Loan Agreement and to issue a Master Note in the principal amount of \$4,000,000.

Applicant is a California corporation owning and operating public utility water systems in the Counties of Los Angeles, Monterey, San Diego and Ventura. For the first ten months of 1976 its reported operating revenues and net income amounted to \$12,802,289 and \$41,834, respectively. The utility's October 31, 1976 balance sheet attached to the application as part of Exhibit D shows assets and liabilities, as follows:

<u>Assets</u>	
Utility plant less reserves	\$60,472,729
Current assets	5,902,349
Other assets	5,218,485
Total	<u>\$71,599,563</u>
<u>Liabilities</u>	
Common stock	\$21,500,000
Paid-in capital	4,116,267
Retained earnings	2,161,422
Long-term debt	27,757,500
Current liabilities	3,547,350
Customer advances for construction	5,391,050
Contributions in aid of construction	6,520,967
Other liabilities	105,007
Total	<u>\$71,599,563</u>

Upon granting applicant herein recent authority to increase rates so as to produce a maximum rate of return of 9.2%, commencing near the foot of mimeographed page 11 of Decision 86249, dated August 17, 1976, in Application 54942, the Commission stated the following:

"Applicant also shall be required to maintain its present recorded capital structure in which long-term borrowings from nonaffiliates do not represent more than 50 percent of its total capitalization until the permanent financing of the near-term portion of the Monterey projects has been completed. That is, we will require that the balance of the cost of financing plant additions be obtained from some combination of internally generated funds, additional common stock sales, and/or advances from affiliates. Applicant will be authorized to establish increased revenues designed to produce that rate of return in consideration of its assurance that immediate steps will be taken to obtain financing for and begin construction of the Begonia and Canada de la Segunda projects. That rate of return and corresponding return on common equity should provide adequate interest coverage and applicant should be able to attract needed new debt financing."

Consistent with the foregoing quotation, paragraph 4 of the order in said Decision 86249 states: "Until further order of the Commission, California-American Water Company shall maintain a capital structure in which long-term borrowings from non-affiliates shall not represent more than 50 percent of its total capital structure."

Applicant requests authority "to arrange for temporary financing on the best terms available to it" in order to enable the utility to construct vitally needed improvements in its Monterey Peninsula District. In this connection the company

proposes to issue a seven-year \$4,000,000 Master Note pursuant to a Loan Agreement with Bank of America National Trust and Savings Association, whereby the latter would lend to applicant from time to time not exceeding the aggregate sum of \$4,000,000 during the first three years. Principal would be repayable in eight equal semi-annual installments commencing 3-1/2 years after the date of the note, and interest on advances actually made would be payable in quarterly installments at 120% of the bank's prime rate plus 1/2% for the first three years, plus 3/4% for the next two years, and plus 1% for the last two years.

Exhibit C, attached to the application, describes the utility plant proposed to be acquired and constructed in applicant's Monterey Peninsula District with proceeds of the \$4,000,000 Master Note. The preliminary estimated costs set forth in said exhibit are summarized as follows:

Canada de la Segunda Pipeline Project -		
Reservoir site		\$ 45,000
Right-of-way easement		15,000
Pipeline from Carmel Valley to City of Seaside	2,092,000	
1,500,000 gallon steel reservoir		413,000
250,000 gallon underground concrete reservoir		110,000
Canada pump station		295,000
Robles del Rio control valve		30,000
	Total	<u>3,000,000</u>
Begonia Iron Removal Plant -		
Building		103,000
Pressure filters		565,000
Other plant		302,000
	Total	<u>970,000</u>
Well Improvements	Total	<u>68,000</u>
	Grand Total	<u><u>\$4,038,000</u></u>

After consideration of the verified application the Commission finds that:

1. The proposed Master Note would be for proper purposes.
2. The proposed Loan Agreement and Master Note would not be adverse to the public interest.
3. The money, property or labor to be procured or paid for by the note herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
4. There is no known opposition and there is no reason to delay granting the relief requested.

On the basis of the foregoing findings we conclude that the application should be granted, and that the effective date of the order should be the date on which applicant pays the prescribed fee. A public hearing is not necessary. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Applicant is hereby placed on notice that any conversion into permanent long-term financing of the herein authorized temporary financing must not affect adversely the maintenance of a debt ratio of not exceeding 50% of its capital structure.

O R D E R

IT IS ORDERED that:

1. California-American Water Company, for the purposes set forth in the application herein, may execute a Loan Agreement and issue a Master Note in the principal amount of not exceeding \$4,000,000, which documents shall be in substantially the same forms as those attached to the application.

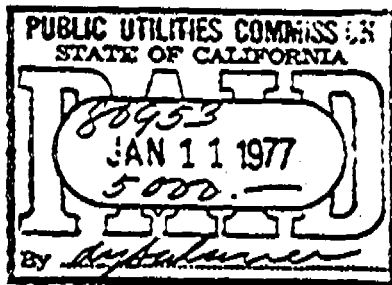
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2. California-American Water Company shall file with the Commission monthly reports as required by General Order 24-B, which order, insofar as applicable, is hereby made a part of this order.

3. This order shall become effective when California-American Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$5,000.

Dated at San Francisco, California, this 11<sup>th</sup> day of January, 1977.

Robert Bateman  
President  
William Sproull, Jr.  
Leonard Ross  
Commissioners



Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.