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Decision No. 88542 MAR 7 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Crows Landing Water Co.)
to execute and issue a \$30,000)
unsecured note.)

Application No. 57674
(Filed November 7, 1977)

O P I N I O N

Crows Landing Water Co. seeks authority to issue a \$30,000 unsecured note for the purpose of financing the cost of plant construction.

The company, a California corporation, owns and operates a public utility water system in Crows Landing, an unincorporated community located in Stanislaus County. For the year 1976 the company reports total revenues of \$14,146, depreciation expenses of \$1,996, and net income of \$1,412. The utility's balance sheet on December 31, 1976, attached to the application as Exhibit B, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Utility plant	\$ 53,775
Less: Depreciation reserve	(34,750)
Net utility plant	<u>19,025</u>
Cash	6,393
Other assets	<u>958</u>
Total	<u>\$ 26,376</u>
 <u>Liabilities and Capital</u>	
Capital stock	\$ 10,000
Capital surplus	5,990
Retained earnings	<u>10,386</u>
Total	<u>\$ 26,376</u>

Crows Landing Water Co. proposes to issue a \$30,000 unsecured note in favor of Lloyds Bank of California, bearing interest at the lender's prime interest rate as it may change from time to time plus 1%. The bank's prime rate was 7-1/2% at the time this application was filed. Principal and interest would be payable in monthly installments of \$295.42 and the note would mature in seven years. The application indicates that the unpaid balance at maturity may be further extended for a total period of fifteen years.

The utility plans to use the proceeds of the note for constructing the following facilities designed to upgrade the system and to serve four new customers:

<u>Item</u>	<u>Estimated Cost</u>
a. Drill, case and develop well	\$14,000
b. Install deep well turbine pump	6,103
c. Install 5,000 gallon pressure system	6,240
d. Install underground pipes and services	3,250
e. Other capital improvements	<u>407</u>
Total	<u>\$30,000</u>

The proposed note issue would alter the company's capital structure substantially, reducing the present 100% equity ratio to 47% and establishing a debt ratio of 53%. Revenues would increase slightly in 1978 but after deductions for expenses, taxes, depreciation and interest on the new note, a loss would be incurred in 1978; moreover, internally generated cash would be insufficient to cover annual payments of principal and interest on the new note.

The utility's other assets include some surplus cash which could be used to cover deficiencies for the short-term, and an officer of the corporation has informed the staff that the \$300 monthly salaries of management would be made available in an emergency to cover monthly payment of the debt. When the system has been upgraded, it is probable that the utility will find it necessary to file a request for authority to increase water rates in order to operate profitably. Original plans to apply for a loan under the Safe Drinking Water Bond Act were abandoned by management because the cost of required outside consulting services would be too burdensome.

The Utilities Division has reviewed the application and concurs with the Finance Division's conclusion that the proposed financing is necessary to implement the company's construction program.

After consideration the Commission finds that:

1. The proposed note would be for a proper purpose.
2. Applicant has need for external funds for the purpose set forth in this proceeding.
3. The money, property or labor to be procured or paid for by the note herein authorized is reasonably required for the purpose specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. 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.

ORDER

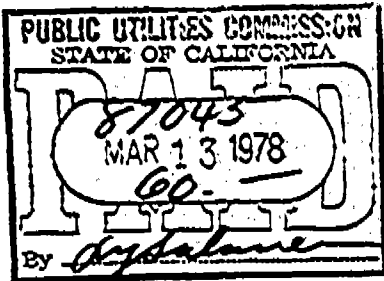
IT IS ORDERED that:

1. On or after the effective date hereof, Crows Landing Water Co. may issue a note in the principal amount of \$30,000 for the purpose set forth in the application.

2. Crows Landing Water Co. shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

3. This order shall become effective when Crows Landing Water Co. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$60.

Dated at San Francisco, California, this 7th day of MARCH, 1978.



Roluf Batum
President

William [unclear]

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Commissioners