

Decision No. 92712 FEB 18 1981**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA-AMERICAN
WATER COMPANY for an ex parte order
rescinding Ordering Paragraph No. 4
of Decision No. 86249 (dated
August 17, 1976).

Application No. 60059
(Filed November 4, 1980)

O P I N I O N

California-American Water Company (Cal-Am) petitions that Ordering Paragraph No. 4 of Decision No. 86249, dated August 17, 1976 in Application No. 54942 be rescinded. Ordering Paragraph No. 4 limits the debt portion of Cal-Am's capital ratio to 50 percent.

Cal-Am requests this relief be granted pursuant to Sections 1701 and 1708 of the Public Utilities Code.

Notice of the filing of the application was published on the Commission's Daily Calendar of November 10, 1980. No protests have been received.

Cal-Am is a wholly owned subsidiary of American Water Works Company, Inc. (AWWC) of Wilmington, Delaware, and operates water systems in portions of the counties of San Diego, Los Angeles, Ventura and Monterey. It serves 92,000 service connections according to its annual report to the Commission for 1979. In 1979 Cal-Am generated Operating Revenues of \$12,603,854, Net Income of \$744,016 and had a Capital Structure as follows:

	<u>Amount</u>	<u>Percent</u>
Stockholder's Equity	\$25,965,399	55.15%
Long-Term Debt	<u>21,112,500</u>	<u>44.85</u>
Total	<u>\$47,077,899</u>	<u>100.00%</u>

Commission Decision No. 86249 specifically stated:

"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."

The Commission, in Ordering Paragraph No. 4 of Decision No. 86249, set forth its order as follows:

"4. Until further order of this Commission, California-American Water Company shall maintain a capital structure in which long-term borrowings from nonaffiliates shall not represent more than 50 percent of its total capital structure."

The purpose of that Commission restriction was to require Cal-Am to invest stockholder equity into certain specific major improvements in its Monterey District, namely the construction of the Begonia Iron Removal Plant and the Canada de la Segunda Pipeline.

The application indicates that the purpose of Ordering Paragraph No. 4 in Commission Decision No. 86249, has been served. Since the date of that decision, Cal-Am has completed and put into service in its Monterey District each of the specific projects sought by the Commission. Exhibit B, attached to the application, sets forth the projects completed with stockholder funds.

The engineering staff of the Commission's Revenue Requirements Division conducted a field investigation of Cal-Am's Monterey District on December 22, 1980. The staff's investigation revealed that all of the major improvement projects were completed with the exception of four new wells in Carmel Valley and expansion of the Begonia Iron Removal Plant. Permit approvals for these projects is pending. Cal-Am estimates completion of these projects by the first quarter of 1982.

The application further indicates that in addition to the capital investments made by Cal-Am in its Monterey District, it has, during the 1977-1980 period, also invested substantial stockholder funds throughout all of its Districts. Those investments are summarized in Exhibit C, attached to the application.

Cal-Am claims that if it is to put into effect its extensive construction plans, it must be prepared to go to the debt market in the near future to finance additional capital improvements which may be necessary throughout its system. The continued existence of the present capital structure restriction diminishes needed financial flexibility, makes long-term financial planning very difficult and may result in a capital structure which is in fact more expensive to Cal-Am's ratepayers than would otherwise be necessary.

The Revenue Requirements Division has reviewed the application and has concluded that the 50 percent restriction on the debt increment of Cal-Am's capital ratio is no longer necessary. It has also concluded that in order to implement Cal-Am's construction program, additional external debt financing is necessary. The Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Cal-Am is put on notice that it is the Commission's responsibility to regulate the financial viability of water utilities to ensure that they remain able to furnish an adequate supply of water to ratepayers at reasonable rates. Unless a reasonable capital structure is maintained the Commission retains the right to reimpose the 50 percent debt limitation. In the event of a general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of interest expense if it is determined the cost of money incurred was not the most prudent.

Findings of Fact

1. Cal-Am is a water utility subject to the jurisdiction of this Commission.
2. Rescission of Ordering Paragraph No. 4 of Decision No. 86249, dated August 17, 1976, in Application No. 54942, would not be adverse to the public interest.
3. Cal-Am has demonstrated a desire to comply with the directives of the Commission in its construction program.
4. There is no known opposition 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 order which follows.

O R D E R

IT IS ORDERED that:

1. On or after the effective date hereof, Ordering Paragraph No. 4 of Decision No. 86249, dated August 17, 1976, in Application No. 54942, which limits the debt portion of California-American Water Company's capital structure to 50 percent is hereby rescinded.
2. In all other respects Decision No. 86249, remains in full force and effect.

The effective date of this order shall be thirty days after the date hereof.

Dated FEB 18 1981, at San Francisco, California.

John G. Bryson
President
Richard D. [unclear]
Francis M. [unclear]

Commissioners