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APR 21 1981

ORIGINAL

Decision

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application)
of HARVEY E. WEST, JR., ROBERT WEST,)
the Estates of HARVEY E. WEST, JR.,)
and LEILA K. WEST, doing business)
as GRAEAGLE WATER COMPANY for)
authority to issue two (2) notes)
for \$140,000.00 each, making a)
total of \$280,000.00.) 1/

Application 60131
(Filed December 9, 1980)

O P I N I O N

Harvey E. West, Jr., Robert West, Leila E. West and the Estate of Harvey E. West, Sr., a partnership, doing business as Graeagle Water Company (Graeagle) requests authority, pursuant to Sections 816 through 818 of the Public Utilities Code, to issue two promissory notes in the aggregate principal amount not to exceed \$280,000. The purpose of the loans is to construct a water treatment and filtration plant in the system pursuant to an order from the State Department of Public Health.

Notice of the filing of the application appeared on the Commission's Daily Calendar of December 15, 1980. No protests have been received.

1/ The title box is incorrect. It should be:
In the matter of the Application of HARVEY E. WEST, JR., ROBERT WEST, LEILA E. WEST, and the Estate of HARVEY E. WEST, SR., doing business as GRAEAGLE WATER COMPANY for authority to issue two (2) notes for \$140,000.00 each, making a total of \$280,000.00.

Graeagle is a public utility water system providing service in Graeagle, California and adjacent areas in Plumas County. Exhibit B, attached to the application, indicates that Graeagle had total operating revenues of \$61,400, depreciation expense of \$10,415, and net income of \$11,400.

Graeagle proposes to incur an indebtedness of \$280,000 to be used to construct a water treatment and filtration plant. The money will be loaned to the partnership by two of the partners, Harvey E. West, Jr., and Robert West. Each of the partners will loan the partnership \$140,000.

The two unsecured notes will be repaid in 240 installments totaling \$2,702.20 monthly, including 10% interest. Copies of the proposed promissory notes are attached to the application as Exhibits E-1 and E-2.

Based on Graeagle's current cash flow, the utility is unable to pay the installments on the notes as they become due. However, by letter dated March 20, 1981, Graeagle's attorney stated that the utility intends to apply for an increase in rates which would generate additional revenues. He also included a pro forma statement which shows Graeagle's ability to repay the proposed loans.

The Department of Water Resources (DWR), by a copy of a letter dated May 8, 1980, informed the Commission staff that Graeagle had applied and received a commitment of funds for the construction of a filtration plant. The utility's application was made under the California Safe Drinking Water Bond Act of 1976 (SDWBA) and DWR reserved \$360,500 of SDWBA funds for Graeagle. The proposed loan to Graeagle would have been for a period of 35 years at a projected interest rate of 6-1/2%, and an administrative fee of 3%. DWR estimated a semiannual payment of principal and interest of about \$13,100. The utility, however, did not accept the funds for numerous reasons as stated in a letter dated February 6, 1981 from Graeagle's attorney to the Commission staff.

Following are the reasons as stated in the letter:

- a. Graeagle objected to becoming a corporation.
- b. DWR wanted a licensed general contractor to do the work; however, it could be done at substantially less cost by Graeagle's own men.
- c. The loan from the partners is only for \$280,000 rather than \$360,500.
- d. There would be no administrative fees. DWR wanted to include an administrative fee of 3%.
- e. Prices on items of equipment were going up substantially, and it was necessary to get a third party to advance monies for the equipment. It was not known whether DWR would provide the additional funds.
- f. DWR requested a deed of trust and/or financing statement on the property, equipment and land of the utility. It could have been very expensive to get the proper documentation for DWR.
- g. Graeagle determined that it would be in the best interests of the customers if the utility did a substantial amount of the work and borrowed the necessary money from the partners.

The estimated cost of the proposed water treatment and filtration plant submitted to Graeagle by the firm of Alan Means, Civil Engineering and Land Surveying, Ltd., is attached to the application as Exhibit D, and summarized as follows:

<u>Item</u>	<u>Amount</u>
Equipment	\$140,000
Installation of Equipment	14,000
Water Supply Pumps and Suction Barrels	16,500
Emergency Generator	13,500
Treatment Building	30,000
Electrical Controls and Equipment	8,000
Pipes, valves, Plumbing Equip- ment and Installation	17,300
Miscellaneous	<u>1,500</u>
Subtotal	\$240,800
Contingency (10%)	24,000
Engineering Services	<u>10,000</u>
Total	<u>\$274,800</u>

The Revenue Requirements Division and the Utilities Division have reviewed the application and agree that Graeagle's request is reasonable and should be granted.

Findings of Fact

1. Graeagle is a public utility subject to the jurisdiction of this Commission.
2. The issuance of the proposed promissory notes by Graeagle would be for proper purposes.
3. Graeagle has need for external funds for the purposes set forth in the application.
4. The money, property or labor to be procured or paid for by the long-term loans herein authorized is reasonably required for the purposes specified herein, which purposes are "not, in whole or in part, chargeable to operating expenses or to income."

5. 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.

The action taken herein is for the purposes of this proceeding only and is not to be construed as indicative of amounts to be included in ratesetting proceedings.

O R D E R

IT IS ORDERED that:

1. Graeagle Water Company, on or after the effective date hereof and on or before June 30, 1981, may issue and deliver to Harvey E. West, Jr., and Robert West promissory notes in the aggregate principal amount not to exceed \$280,000, under the terms specified in the application.
2. Graeagle Water Company shall apply the net proceeds from the long-term loans herein authorized to the purposes set forth in the application.
3. Graeagle Water Company shall file the reports required by General Order Series 24.

A.60131 RR/mcm

4. The authority granted by this order will become effective when Graeagle Water Company pays \$560, the fee set by PU Code Section 1904(b). In all other respects, this order becomes effective 30 days from today.

Dated APR 21 1981, at San Francisco, California.

John E. Bryson
President
Philip W. Hooper
Leonard W. Smith
Victor Calvo
Francisco C. Green
Commissioners

