

CACD/RHG

Decision 95-08-060 August 11, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
PARK WATER COMPANY U-314-W, for autho-
rity to issue its First Mortgage Bonds
in the aggregate principal amount of
\$10,000,000.

} Application 95-05-027
} (Filed May 9, 1995)

OPINION

ORIGINAL

Summary of Decision

This decision grants Park Water Company (Park Water), a Class A water utility, the authority requested in Application 95-05-027 (Application).

Park Water requests authority, pursuant to § 816 et seq. of the Public Utilities (PU) Code, for the following:

1. To issue \$10,000,000 of its First Mortgage Bonds (Bonds) according to the terms described in the Application;
2. To extend a security interest in its assets to the purchasers of the Bonds pursuant to an indenture, which will rank pari passu with the interest of Park Water's existing bondholders.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of May 15, 1995. No protests have been received.

Background

Park Water is a public utility corporation, duly organized under the laws of California, and operates a public utility water system in the southeastern and northeastern sections of Los Angeles County (Central Basin Division).

Park Water also has three wholly-owned public utility subsidiaries in California: Santa Paula Water Works Ltd., which operates a public utility water system in and near the city of Santa Paula in Ventura County; Apple Valley Ranchos Water Company, which operates a public utility water system in and near the town of Apple Valley in San Bernardino County; and Jess Ranch Utilities, Inc., which provides water and sewer services in and near the town of Apple Valley in San Bernardino County. Park Water also has a wholly-owned public utility subsidiary in Montana: Mountain Water Company, which provides water service within and around the communities of Missoula and Superior, Montana.

Park Water serves as the borrowing agent for its Central Basin Division and its subsidiaries, and transfers capital as needed to its division and subsidiaries through intercompany transactions, thereby allowing the subsidiaries to benefit from Park Water's greater borrowing power and obtain debt at a lower cost.

According to its Consolidated Financial Statement, Park Water and its subsidiaries realized a net income of \$2,036,000 for the year ended December 31, 1994, on total operating revenues of \$30,303,000. Also shown as part of Park Water's 1994 Consolidated Financial Statement is the company's balance sheet, which is summarized below:

(in Thousands)	
<u>Assets</u>	<u>Amount</u>
Net utility plant	\$ 62,920
Construction work in progress	<u>2,947</u>
Total Utility Plant	\$ 65,867
Non-utility Property	1,542
Current Assets	7,030
Other Assets	<u>2,531</u>
Total	\$ 76,970
<u>Liabilities and Equity</u>	<u>Amount</u>
Stockholders' Equity	\$ 30,396
Long term debt	16,209
Current liabilities	5,333
Other liabilities and Deferred credits	<u>25,032</u>
Total	\$ 76,970

Description of Financing and Manner of Issuance

Park Water seeks authority to issue its Bonds in the aggregate principal amount of \$10,000,000. The Bonds will be privately placed to a limited number of institutional investors by Park Water's placement agent, Bank of America N.T.&S.A. (BoFA). A copy of the form of Engagement Letter between Park Water and BoFA is attached as Exhibit B to the Application and the proposed form of Bonds (subject to changes or additions to meet current market demands) as Exhibit C.

Park Water expects the Bonds to have an average life of 15 to 30 years, with the last Bond maturing from 20 to 30 years after issuance.

The Bonds will be secured by and issued under the provisions of Park Water's existing Trust Indenture, dated November 1, 1973 (Original Indenture), as supplemented (Indenture). The Original Indenture has been previously filed with the Commission and the First through Fifth Indentures are attached as Exhibit C to the Application. Park Water entered into these Indentures to the Original Indenture between September 12, 1979 and May 20, 1993. Park anticipates entering into a Sixth Indenture (Supplement) to provide for the issuance of the proposed Bonds. The Supplement will be similar in form and content to the Fifth Indenture, and subject to changes or additions to meet current market demands.

Capital Expenditures

Park Water's capital expenditures for 1992 to 1994, as shown in the supplemental data to the Application, are as follows:

<u>Division</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Corporate	\$ 67,300	\$ 238,600	\$ 204,791
Central Basin	386,100	1,083,200	851,886
Santa Paula	276,500	608,900	1,063,941
Apple Valley	669,500	1,319,800	897,964
Missoula/Clark Fork	380,900	1,853,300	280,645
Superior	1,100	18,700	2,114
Jess Ranch Water	0	0	134,415
Jess Ranch Sewer	0	0	22,960
Jess Ranch Irrigation	0	0	10,172
Total	\$1,781,400	\$5,122,500	\$3,468,888
Accumulated Total	\$1,781,400	\$6,903,900	\$10,372,788

We will not make a finding in this decision on the reasonableness of Park Water's capital expenditures. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

Capitalization Ratios

Park Water's capital ratios, as of March 1, 1995, as shown in its supplemental data to the Application, are presented below as recorded and as adjusted to give pro forma effect to the proposed \$10,000,000 Bond issue:

	(in Thousands)			
	<u>Recorded</u> Amount	<u>Percentage</u>	<u>Pro Forma</u> Amount	<u>Percentage</u>
Long-Term Debt	\$ 16,127	34.7%	\$ 26,127	46.2%
Total Equity	<u>30,388</u>	<u>65.3%</u>	<u>30,388</u>	<u>53.8%</u>
Totals	\$ 46,515	100.0%	\$ 56,515	100.0%

Capital structures are normally subject to review in general rate case or cost of capital proceedings. We do not therefore, make a finding in this decision on the reasonableness of the projected capital ratios for ratemaking purposes.

Use of Proceeds

Park Water proposes to issue Bonds to reimburse its treasury for previous capital expenditures in its Central Basin Division and its subsidiaries, including Mountain Water.

Decision (D.) 93-01-022 authorized Park Water to issue \$8,000,000 Bonds and to use \$6,500,000 of the proceeds to reimburse its treasury for capital expenditures (\$6,659,400 from July 1, 1990 to June 30, 1992) that Park Water financed in its California subsidiaries and division. The remaining \$1,500,000 of the proceeds is to be used to retire its note to the Montana Power Company which Park Water had issued in connection with its purchase of Mountain Water. Park Water states that its expenditures for

capital projects (\$8,591,388 for 1993 and 1994) have exceeded the net proceeds realized under the D.93-01-022 authority and that its cash reserves are significantly depleted at this time.

At the time it issued its Bonds in 1993, Park Water was using a California consolidated capital structure for California rate proceedings and the note to the Montana Power Company was considered Montana debt.

Park Water states that in the most recent general rate proceedings for its subsidiaries in California and Montana, both this Commission and the Montana Public Service Commission recognized a single consolidated capital structure for ratemaking purposes.

Findings of Fact

1. Park Water, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. Park Water needs external funds for the purposes set forth in the Application.
3. The proposed issuance of Bonds and the execution of a Supplemental Indenture would not be adverse to the public interest.
4. The money, property, or labor to be procured or paid for by the proposed issuance of Bonds is reasonably required for the purposes specified in the Application.
5. The Commission does not by this decision determine that Park Water's capital ratios and capital expenditures are necessary or reasonable for ratemaking purposes. These issues are normally tested in ratemaking proceedings.
6. There is no known opposition and there is 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.

3. The proposed transaction is for lawful purposes. Such purposes are not, in whole or in part, reasonably chargeable to operating expense or income.

4. Park Water should pay the fee determined in accordance with PU Code § 1904.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Park Water Company (Park Water) is authorized to issue and sell \$10,000,000 principal amount of its First Mortgage Bonds (Bonds) in substantially the same form as set forth in Application 95-05-027 (Application).

2. Park Water may execute and deliver the Sixth Supplemental Indenture to secure the Bonds, in substantially the same form as set forth in Exhibit C to the Application.

3. Park Water shall apply the net proceeds of the sale of the Bonds for the purposes set forth in the Application.

4. Park Water shall file with the Commission Advisory and Compliance Division copies of the agreements for the sale of the Bonds and the sixth Supplemental Indenture within fifteen days of the execution of the documents.

5. On or before the 25th day of each month, Park Water shall file the reports required by General Order Series 24.

6. The Application is granted as set forth above.

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7. The authority granted by this order shall become effective when Park Water pays \$11,000, the fee set forth by Public Utilities Code 1904.

This order is effective today.

Dated August 11, 1995, at San Francisco, California.

DANIEL Wm. FESSLER

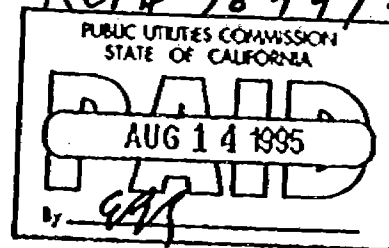
President

P. GREGORY CONLON

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

Commissioners



I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY *[Signature]*

Wesley Franklin
Acting Executive Director