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Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SANTA CLARITA WATER)	
COMPANY U-345-W, to issue evidence of)	Application 96-04-010
indebtedness totalling \$560,735.)	(Filed April 4, 1996)
_____)	

O P I N I O N

ORIGINAL

Summary of Decision

This decision grants Santa Clarita Water Company (SCWC) the authority requested in Application (A.) 96-04-010 (Application).

SCWC requests authority, pursuant to §§ 816 through 818 of the Public Utilities Code (PU Code), to issue evidence of indebtedness in the amount of \$560,735 through Bank of America NT&SA (Bank of America). The proceeds will be used to purchase water tanks which were previously leased.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of April 9, 1996. No protests have been received.

Background

SCWC, a California corporation, operates as a water utility under the jurisdiction of this Commission. SCWC provides service to 19,500 service connections spread over approximately 50 square miles, including Canyon Country, Saugus and parts of Newhall in Los Angeles County.

For the year ended December 31, 1995, SCWC reported it generated total operating revenues of \$8,653,000 and net income of \$1,702,000, as shown in Exhibit A to the Application.

Also shown as part of Exhibit A is SCWC's Balance Sheet for the same period which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$32,617,000
Current Assets	4,363,000
Other Assets	<u>3,438,000</u>
Total Assets	\$40,418,000
<u>Capitalization & Liabilities</u>	<u>Amount</u>
Common Shareholders' Equity	\$12,250,000
Current Liabilities	959,000
Other Credits	<u>27,209,000</u>
Total	\$40,418,000

Description of Financing

SCWC proposes to secure a fixed-term loan in the amount of \$560,735 at a rate of 9.875% for a term of seven years from Bank of America. SCWC has been doing business with Bank of America since 1973. The loan will be repaid in 84 equal monthly principal and interest installments.

Construction Budget

SCWC's 1996 capital expenditure forecast, shown as supplemental data to the Application is summarized as follows:

<u>Item</u>	<u>1996</u>
Purchased Leased Tanks	\$ 560,735
Other General Plant	<u>793,300</u>
Total	\$1,354,035

SCWC's capital expenditure forecast for 1996 raises no questions that should dissuade us from giving favorable consideration to the financing requested in the Application. We will not, however, make a finding in this decision on the

reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

Capital Ratios

SCWC's capital ratios as of December 31, 1995, shown as supplemental data to the Application, are presented below as recorded and as adjusted to give pro forma effect to the proposed loan:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 0	0.0%	\$ 560,735	5.9%
Common Equity	8,968,937	100.0%	8,968,937	94.1%
Total	\$8,968,937	100.0%	\$9,529,672	100.0%

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

Cash Requirements Forecast

SCWC's 1996 cash requirements forecast, shown as part of the supplemental data to the Application, is summarized as follows:

Construction Requirements

Funds used or required for construction expenditures	\$1,354,035
Funds used or required for cash dividends	<u>756,000</u>
Total	\$2,110,035
Less: Estimated cash available from operating income	<u>1,600,800</u>
Additional funds required from outside sources	\$ 509,235

SCWC's forecasted cash requirements indicate that internally generated funds will provide 75.9% of the utility's cash requirements for 1996. The proposed loan is necessary to help meet forecasted cash requirements.

Use of Proceeds

SCWC will use the proceeds from the loan to purchase two 1 million gallon water tanks and two 4 million gallon water tanks that SCWC had leased from GATX Capital Corporation. The lease has now expired. The tanks are an integral part of SCWC's system. The tanks were originally constructed in 1980 at a cost of \$1,757,381 with a useful life of thirty to forty years.

We have reviewed SCWC's proposed use of proceeds and have determined that it is for proper purposes and is for the public good. Accordingly, we will approve SCWC's request to obtain a loan from Bank of America.

SCWC is placed on notice by this decision that the proceeds from the loan cannot be charged to operating expenses or income.

Findings of Fact

1. SCWC, a California corporation, is a water utility subject to the jurisdiction of this Commission.
2. SCWC has need for external funds for the purposes set forth in the Application.
3. The money, property, or labor to be procured or paid for by the proposed loan is reasonably required for the purposes specified in the Application.
4. In this decision the Commission does not determine that SCWC's construction budget, capital ratios, and forecasted cash requirements are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or cost of capital proceedings.
5. There is no known opposition to this Application, and the authority requested should be granted.

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 loan is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. The proceeds from the debt issue may not be charged to operating expense or income.
4. SCWC has previously paid the fee of \$1,122 determined in accordance with PU Code § 1904.

ORDER

IT IS ORDERED that:

1. Santa Clarita Water Company (SCWC), on or after the effective date of this order is authorized to secure a fixed term loan in the amount of \$560,735 upon terms and conditions substantially consistent with those set forth in or contemplated in Application 96-04-010 (Application).

2. SCWC may execute and deliver any or all related documents required for completion of the financing.

3. SCWC shall apply the proceeds of the loan to acquire the water tanks described in the Application.

4. The Application is granted as set forth above.

This order is effective today.

Dated _____, at San Francisco, California.