

Mailed:
10/29/96

Decision D96-10-017 October 9, 1996

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of EAST PASADENA WATER COMPANY)
for authority to borrow \$300,000 and issue a note under)
Sections 816-830 of the Public Utilities Code.)

Application 95-09-068
(Filed September 29, 1995)

OPINION

Summary of Decision

This decision grants East Pasadena Water Company (East Pasadena) the authority requested in Application (A.) 95-09-068.

East Pasadena requests authority, pursuant to §§816, 817, 818 and §851 of the Public Utilities (PU) Code, to borrow \$300,000 principal amount through long term-debt consisting of a loan from its parent company, California-Michigan Land and Water Company (Cal-Michigan).

Notice of the filing of the Application appeared on the Commission's Daily Calendar of October 26, 1995. No protests have been received.

Background

East Pasadena is a California corporation engaged in the business of providing water service in portions of the Cities of Pasadena, Arcadia, Temple City and in adjacent territory in the County of Los Angeles.

For the calendar year 1994, East Pasadena reported it generated total operating revenues of \$1,253,901 and a net loss of \$78,958, as shown in Exhibit D to the Application.

Also shown as part of Exhibit D is East Pasadena's Balance Sheet for the calendar year 1994, which is summarized below:

| <u>Assets</u> | <u>Amount</u> |
|----------------|--------------------|
| Net Plant | \$2,453,607 |
| Current Assets | 585,934 |
| Other Assets | 714,551 |
| Total | <u>\$3,754,092</u> |

Liabilities and Equity

| | |
|--------------------------------------|--------------------|
| Current Liabilities | \$ 455,720 |
| Long-Term Debt | 769,084 |
| Long-Term Capital Lease Obligations | 5,219 |
| Other Liabilities & Deferred Credits | 1,332,717 |
| Equity | <u>1,191,352</u> |
| Total | <u>\$3,754,092</u> |

Description of the Loan

East Pasadena's purpose in requesting approval to enter into a loan agreement with its parent, Cal-Michigan, is to repay advances received from Cal-Michigan in 1994 and 1995. East Pasadena has completed construction of new reservoirs to increase its storage capacity as recommended by Zimmerman Consulting Engineers (Exhibit A). The Commission previously determined in Resolutions W-3761 and W-3877 that the construction is needed and authorized East Pasadena to file for an offset rate increase for rate base up to \$400,000. This application does not address that offset. East Pasadena received approximately \$300,000 in advances from Cal-Michigan during 1994-95 to complete construction of the reservoirs.

Cal-Michigan's Board of Directors voted to consolidate the advances during its meeting of August 8, 1995 into an outstanding loan of \$300,000 (Exhibit G). The proposed loan will provide for a ten year repayment schedule with equal payments, at an interest rate of 9.5%, fully amortized over the life of the loan. The unpaid principal and accrued interest will be payable in monthly installments of interest only until December 1, 2004. At that time, the remaining unpaid principal and interest will be due in full. East Pasadena has the right to prepay without penalty.

We have reviewed East Pasadena's proposed loan and have determined that it is for proper purposes and is not adverse to the public interest.

East Pasadena is placed on notice by this decision that it may not charge the advances

to operating expenses or income.

Capital Ratios

East Pasadena's capital ratios as of December 31, 1994, shown as Exhibit VII, of the supplemental data to the Application, are presented below as recorded and as adjusted to give *pro forma* effect to the proposed financing:

| | <u>Recorded</u> | | <u>Pro Forma</u> | |
|----------------|------------------|-------------------|------------------|-------------------|
| | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> |
| Long-Term Debt | \$ 5,219 | .44 | \$ 305,219 | 20.39 |
| Common Equity | <u>1,191,352</u> | <u>99.56</u> | <u>1,191,352</u> | <u>79.61</u> |
| Total | \$1,196,571 | 100.00 | \$1,496,571 | 100.00 |

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

East Pasadena's cash requirements forecast for 1995 and 1996, are shown as follows:

| | <u>1996</u> | <u>1997</u> | <u>1998</u> |
|--|-------------|-------------|-------------|
| Construction Expenditures | \$194,000 | \$150,000 | \$160,000 |
| Retirement of Debt | | | |
| Cal-Michigan Note Principal | 7,867 | -0- | -0- |
| Short-Term Debt O/S at Beginning of Year | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| | \$203,867 | \$150,000 | \$160,000 |
| Less: Estimated Cash Available From Internal Sources | 221,736 | 202,702 | 194,398 |
| Additional New Funds Required From Outside Sources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total Cash Requirements | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |

East Pasadena's forecasted cash requirements indicate that internally generated funds

will provide 100% of the utility's cash requirements for 1996, 1997 and 1998.

Findings of Fact

1. East Pasadena, a California corporation, is a water utility subject to the jurisdiction of this Commission.
2. East Pasadena has completed construction of new reservoirs to increase its storage capacity as recommended by its consulting engineers.
3. The Commission previously determined in Resolutions W-3761 and W-3877 that the construction is needed and authorized East Pasadena to file for an offset rate increase for rate base up to \$400,000.
4. East Pasadena received approximately \$300,000 in advances from its parent, Cal-Michigan, during 1994-95 to complete construction of the reservoirs.
5. East Pasadena requests authority, pursuant to §§816, 817, 818 and §851 of the Public Utilities (PU) Code, to consolidate its advances into a \$300,000 principal amount long term loan from Cal-Michigan.
6. We have reviewed East Pasadena's proposed loan and have determined that it is for proper purposes and is not adverse to the public interest.
7. The money, property, or labor to be procured or paid for by the proposed financing is reasonably required for the purposes specified in the Application.
8. In this decision the Commission makes no finding as to whether East Pasadena's capital ratios or forecasted cash requirements are necessary or reasonable for ratemaking purposes.
9. There is no known opposition to this Application.

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 financing is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the financing may not be charged to

operating expense or income.

4. East Pasadena shall pay the fee required by PU Code §1904(b).

ORDER

IT IS ORDERED that:

1. East Pasadena Water Company (East Pasadena), on or after the effective date of this order is authorized to enter into a loan with its parent company, California-Michigan Land and Water Company in the aggregate principal amount of \$300,000 upon terms and conditions substantially consistent with those set forth or contemplated in Application 95-09-068 (Application).

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

3. East Pasadena shall apply the financing for the purposes set forth in the Application.

4. East Pasadena shall maintain, and within thirty days from request, provide the Commission a copy of the final form of the financing, along with any related documents.

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

6. The Application is granted as set forth above.

7. The authority granted by this order shall become effective when East Pasadena pays \$600, the fee set forth by Public Utilities Code §1904(b).

8. This proceeding is closed.

This order is effective today.

Dated October 9, 1996, at San Francisco, California.

P. GREGORY CONLON

President

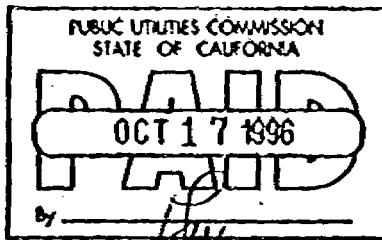
DANIEL Wm. FESSLER

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners



Receipt # 29114 - \$600⁰⁰