

Mailed:  
10/29/96

FINANCE/RHG  
Decision 96-10-065 October 25, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of ALISAL WATER CORPORATION )  
U-206-W, to issue a note in the principal amount )  
of \$230,000. )  
\_\_\_\_\_ )

**ORIGINAL**  
Application 96-08-055  
(Filed August 26, 1996)

### OPINION

#### Summary of Decision

This decision grants Alisal Water Corporation (Alisal), doing business as Alco Water Service, the authority requested in Application (A.) 96-08-055 (Application).

Alisal requests authority, pursuant to §§ 817 and 818 of the Public Utilities (PU) Code, to execute and issue a promissory note and deed of trust to CoBank, ACB (CoBank) in the amount of \$230,000. The proceeds will be used to finance new construction in Alisal's Normco Division.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 28, 1996. No protests have been received.

#### Background

Alisal, a California corporation, operates as a water utility under the jurisdiction of this Commission. Alisal provides service to 6,200 customers in Salinas and several small residential communities in nearby rural areas. Alisal's Normco Division consists of wells, pumps, storage tanks, distribution mains, services, meters, and hydrants. It has eight principal operating wells, with a combined maximum output of 1,038 gpm, and 270,000 gallons of water storage. Distribution mains are cement-asbestos or plastic, ranging in size four inches to eight inches. All services in this division are metered.

We note herein that for ratemaking purposes the Normco Division is treated separately from Alisal.

For the year ended December 31, 1995, Alisal reported it generated total operating revenues of \$2,290,354 and net income of \$126,909, as shown in Attachment B to the Application. Alisal's pro forma statement of income for its Normco Division for the twelve months of 1997 (including the effect of revenues of new plant additions to be funded by the proposed loan), shown as Attachment F to the Application, shows total operating revenues of \$184,797 and net income of \$34,730.

Alisal's Consolidated Balance sheet as of December 31, 1995, shown as Attachment A to the Application is summarized below:

<u>Assets</u>	<u>Amount</u>
Total Current Assets	\$ 653,513
Net Property and Equipment	7,764,063
Total Other Assets	<u>516,576</u>
 Total Assets	 \$8,934,152
 <u>Liabilities and Equity</u>	
Total Current Liabilities	\$1,011,633
Long-Term Liabilities (net)	1,248,956
Deferred Credits	5,191,063
Stockholder's Equity	<u>1,482,500</u>
 Total Liabilities and Stockholder's Equity	 \$8,934,152

Description of Financing

Alisal proposes to execute and issue a promissory note and deed of trust to CoBank in the amount of \$230,000 at a rate of 9.5% for a term of twenty years. The loan will be secured by the assets of Alisal.

Construction Budget

A summary of Alisal's construction budget for the Normco Division, as appearing in Attachment H to the Application, is summarized as follows:

<u>Item</u>	<u>Amount</u>
Valle Pacifico Well (well, pump, variable frequency speed control, pumphouse, tie in expenses, disinfection equipment, transfer switch)	\$ 200,000
Filtration and Oxidation System ( filter tank, fitting, piping, vales, filter media, oxidation system, monitors)	\$ 30,000

We will not make a finding in this decision on the reasonableness of the proposed construction projects. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate case or other ratemaking proceedings.

Cash Requirements Forecast

Alisal's 1996 and 1997 cash requirements forecasts for its Normco Division, shown as part of Attachment G to the Application, is summarized as follows:

	<u>1996</u>	<u>1997</u>
Funds needed for construction expenditures	\$230,000	\$ 1,000
Long-term debt payments	1,641	4,213
Refund advances for construction	<u>3,100</u>	<u>3,100</u>
Total	\$234,741	\$ 8,313
Less: Estimated cash available from operating income	<u>29,320</u>	<u>49,584</u>
Additional funds required from outside sources	\$205,421	(\$41,271)

Alisal's forecasted cash requirements for its Normco Division indicate that internally generated funds will provide 12.49% of the division's cash requirements for 1996 and 100% for 1997. The proposed loan is necessary to help meet the 1996 forecasted cash requirements.

### Capital Ratios

Alisal's capital ratios as of December 31, 1995 (consolidated), shown as Attachment K 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>	
	Amount	Percentage	Amount	Percentage
Long-term debt	\$1,384,943	47.13%	\$1,614,943	50.96%
Short-term debt	71,299	2.42%	71,299	2.25%
Equity Capital	<u>1,482,500</u>	<u>50.45%</u>	<u>1,482,500</u>	<u>46.79%</u>
Total	\$2,938,742	100.00%	\$3,168,742	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 on the reasonableness of the capital ratios for ratemaking purposes.

### Use of Proceeds

Alisal will use the proceeds from the loan to construct new plant in its Normco Division.

Alisal's proposed use of proceeds is for proper purposes and is for the public good. Accordingly, we will approve Alisal's request to obtain a loan from CoBank.

Alisal 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. Alisal, a California corporation, is a water utility subject to the jurisdiction of this Commission.
2. Alisal has need for external funds for its construction requirements.
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 Alisal'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 loan may not be charged to operating expense or income.
4. Alisal will pay the fee in accordance with PU Code § 1904.

ORDER

**IT IS ORDERED that:**

1. Alisal Water Corporation (Alisal), doing business as Alco Water Service, on or after the effective date of this order is authorized to secure a loan from CoBank, ACB in the amount of \$230,000, upon terms and conditions substantially consistent with those set forth in or contemplated in Application 96-08-055 (Application).

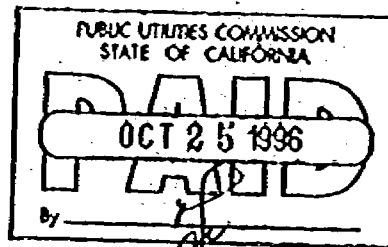
2. Alisal may execute and deliver any or all related documents required for completion of the borrowing.
3. Alisal shall apply the proceeds of the loan to finance the construction of new plant in its Normco Division.
4. On or before the 25<sup>th</sup> day of each month, Alisal shall file the reports required by General Order Series 24.
5. The authority granted by this order shall become effective when Alisal pays \$460, the fee set forth by Public Utilities Code § 1904.
6. The Application is granted as set forth above.
7. This proceeding is closed.

This order is effective today.

Dated October 25, 1996, at Sacramento, California.

P. GREGORY CONLON  
President  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
Commissioners

Commissioner Daniel Wm. Fessler, being necessarily absent, did not participate.



Receipt # 139140 - \$460