

FINANCE/RHG

Decision 96-11-012 November 6, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SANTA CLARITA WATER)
COMPANY U-345-W, to issue evidence of)
indebtedness totalling \$400,000.)

Application 96-09-033
(Filed September 20, 1996)

OPINION

ORIGINAL

Summary of Decision

This decision grants Santa Clarita Water Company (SCWC) the authority requested in Application (A.) 96-09-033 (Application).

SCWC requests authority, pursuant to §§ 816 through 818 of the Public Utilities (PU) Code, to issue evidence of indebtedness in the amount of \$400,000 through Bank of America NT&SA (Bank of America). The proceeds will be used to install 8,700 feet of main line.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 24, 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 as of December 31, 1995, 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 \$400,000 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 part of Exhibit B to the Application is summarized as follows:

<u>Item</u>	<u>1996</u>
Main Line	\$ 400,000
Purchase Leased Tanks	\$ 560,735
Other General Plant	<u>793,300</u>
Total	\$1,754,035

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 August 31, 1996, shown as Exhibit B 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	\$ 551,475	5.6%	\$ 951,475	9.3%
Common Equity	<u>9,302,765</u>	<u>94.4%</u>	<u>\$ 9,302,765</u>	<u>90.7%</u>
Total	\$9,854,240	100.0%	\$10,254,240	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 Exhibit B to the Application, is summarized as follows:

Construction Requirements

Funds used or required for construction expenditures	\$1,754,035
Funds used or required for cash dividends	<u>756,000</u>
Total	\$2,510,035
Less: Estimated cash available from operating income plus depreciation net of deferred revenues)	1,750,000
Funds borrowed to purchase leased tanks	<u>560,735</u>
Additional funds required from outside sources	\$ 199,300

SCWC's forecasted cash requirements indicate that internally generated funds will provide 69.72% of the utility's cash requirements for 1996.

Use of Proceeds

SCWC will use the proceeds from the loan to install 8,700 feet of main connecting the Sky Blue Tank to the Catala zone in order to increase water flow and for fire protection purposes in the Catala zone. Decision 96-06-026 dated June 6, 1996 granted SCWC authority to secure a loan in the amount of \$560,735 to purchase previously leased water tanks.

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 \$800 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 \$400,000 upon terms and conditions substantially consistent with those set forth in or contemplated in Application 96-09-033 (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 install 8,700 feet of main line described in the Application.
4. The Application is granted as set forth above.
5. Application 96-09-033 is closed.

This order is effective today.

Dated November 6, 1996, at San Francisco, California.

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