

WATER/RHG

Decision 99-05-024 May 13, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PARK WATER)
COMPANY U-314-W, for authority to issue)
evidence of indebtedness (First Mortgage Bonds).)
_____)

Application 99-03-023
(Filed March 12, 1999)

OPINION

Summary of Decision

This decision grants Park Water Company (Park Water) the authority requested in Application (A.) 99-03-023 (Application).

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

1. to issue its First Mortgage Bonds (Bonds) in the aggregate principal amount not to exceed \$10,000,000;
2. to execute and deliver a supplemental indenture; and
3. to use the proceeds of the issuance and sale of Bonds for the purposes set forth in the Application.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 18, 1999. 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 owns Apple Valley Ranchos Water Company, which operates a public utility water and sewer system in and

near the town of Apple Valley in San Bernardino County. Park Water also owns Mountain Water Company (Mountain Water), which provides water service within and around the communities of Missoula and Superior, Montana.

Pursuant to its Statement of Income for the twelve months ended December 31, 1998, shown as Exhibit A to the Application, Park Water reported it generated total operating revenues of \$14,344,501 and net income before tax of \$721,254.

Park Water's Balance Sheet at December 31, 1998, shown also as part of Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$21,979,361
Intercompany Investments and Receivables	52,959,636
Current and Accrued Assets	4,117,366
Deferred Debits	<u>982,575</u>
Total	\$80,038,938
<u>Liabilities and Equity</u>	<u>Amount</u>
Capital Stock and Surplus Profit	\$16,413,318
Long-term Debt	27,155,867
Intercompany Advance and Payable	27,982,287
Current and Accrued Liabilities	3,988,876
Deferred Credits	1,140,740
Advances for Construction	1,091,349
Contributions in Aid of Construction	<u>2,266,501</u>
Total	\$80,038,938

Description of Financing

Park Water proposes to issue and sell Bonds up to the aggregate amount of \$10,000,000, which will be privately placed with a limited number of institutional investors. Park Water expects the Bonds to have an average life of 13 to 15 years, with the last Bond maturing 15 years after issuance, with an interest rate reflecting the then

market conditions for bonds issued by companies similar to Park Water. Park Water expects to issue the Bonds by mid-1999.

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 this Commission. The First through Sixth Indentures were entered between September 12, 1979 and August 29, 1995. Park will execute a Seventh Supplemental Indenture (Supplement) to provide for the issuance of the Bonds that are the subject of this Application. The Supplement will be similar in form and content to the Sixth Indenture, and subject to changes or additions to meet current market demands.

Capital Ratios

Park Water's capital ratios, as of December 31, 1998, submitted as supplemental data to the Application, are presented below, as recorded and as adjusted to give pro forma effect to the issuance of the \$10,000,000 new debt:

	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-Term Debt	\$ 26,944,000	36.33%	\$ 36,944,000	43.89%
Equity	<u>47,225,000</u>	<u>63.67%</u>	<u>47,225,000</u>	<u>56.11%</u>
Total	\$ 74,169,000	100.00%	\$ 84,169,000	100.00%

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

Use of Proceeds

Park Water states in the Application that the net proceeds derived from the proposed issue of Bonds will be used to reimburse its treasury for its previous capital expenditures in its Central Basin Division and its subsidiaries, including Mountain Water. 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.

Decision (D.) 95-08-060 authorized Park Water to issue \$10,000,000 of its First Mortgage Bonds to reimburse its treasury for capital expenditures that Park Water financed in its Central Basin Division and its subsidiaries over the period from July 1, 1992 to September 30, 1994.

In the most recent general rate proceedings for Park Water's subsidiaries in California and Montana, both this Commission and the Montana Public Service Commission recognized a single consolidated capital structure for Park Water and all of its subsidiaries.

Between September 30, 1994 and March 31, 1996, Park expended over \$10,000,000 for capital projects undertaken by the Central Basin Division, its California subsidiaries and Mountain Water. These expenditures were funded from Park Water's earnings and its treasury. Accordingly, as a result of these capital expenditures, Park Water's cash reserves are significantly depleted.

PU code 817 (h) provides that a utility may issue bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months for the reimbursement of moneys actually expended from income or from any other money in the treasury not secured by or obtained from the issue of stocks or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness, respectively.

The proposed use of proceeds is for proper purposes and is not adverse to the public interest. Park Water is placed on notice that the proceeds from the debt cannot be charged to operating expenses or income.

In as much as the proceeds from the debt are not intended for any construction program or funding of on-going operations, the construction budget and the cash requirements forecast are not presented in this Decision. However, we note herein that pursuant to Park Water's 1999 cash flow projection, submitted as supplemental data to the Application, the budgeted gross income of Park Water will provide approximately \$4,420,000 or 29.9% of its total cash requirements of \$14,771,000.

In Resolution (Res.) ALJ 176-3012 dated 3/18/99, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3012.

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 Supplement 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 cash requirements forecast 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 issue of Bonds 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. Park Water should pay the fee determined in accordance with PU Code § 1904.
5. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Park Water Company (Park Water), upon terms and conditions substantially consistent with those set forth or contemplated in Application 99-03-023 (Application), is authorized to:
 - (a) issue its First Mortgage Bonds (Bonds) in the aggregate principal amount not to exceed \$10,000,000; and
 - (b) execute and deliver the Seventh Supplemental Indenture.
2. Park Water shall apply the net proceeds of the sale of the Bonds for the purposes set forth in the Application.
3. Park Water shall file with the Commission's Water Division copies of the agreements for the sale of the Bonds and the Seventh Supplemental Indenture within fifteen days of the execution of the documents.

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

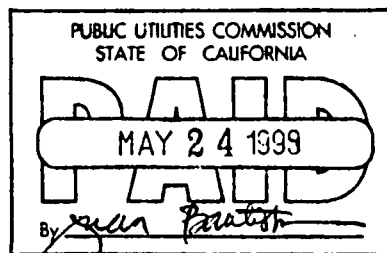
5. The authority granted by this order shall become effective when Park Water pays \$11,000, the fee set forth by Public Utilities Code § 1904.

6. Application 99-03-023 is closed.

This order is effective today.

Dated May 13, 1999, at San Francisco, California. -

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners



CSR # 40384

\$11,000.00