

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of COOK ENDEAVORS, DBA FRUITRIDGE VISTA WATER COMPANY (U-136-W), to borrow \$500,000 and issue a note under Sections 816 - 830 of the Public Utilities Code.

Application 08-03-012 (Filed March 19, 2008; Amendment filed April 30, 2008)

DECISION GRANTING AUTHORITY TO SECURE \$500,000 LOAN

1. Summary

This decision grants Cook Endeavors, dba Fruitridge Vista Water Company (Fruitridge), the authority requested in Application (A.) 08-03-012, as amended (Application).

Fruitridge requests authority, pursuant to §§ 816 through 830 and 851 of the California Public Utilities (Pub. Util.) Code, to enter into a loan agreement with the Five Star Bank (Lender), for the purpose of borrowing \$500,000, and to encumber assets in connection with the loan.¹ The proceeds of this loan will be used to finance the completion of Fruitridge’s Well No. 18.

2. Background

Fruitridge is a Class B water corporation serving approximately 15,000 customers through 5,052 service connections in a four-square-mile

¹ All statutory references are to the Public Utilities Code unless otherwise indicated.

unincorporated area adjacent to the southern boundary of Sacramento. Approximately 86% of its customers are billed on a flat-rate basis.

Fruitridge has been a water company since 1953. In Decision (D.) 86-12-065, dated December 17, 1986, the Commission authorized George L. Cook, executor of the estate of Margaret I. Cook, the authority to sell and transfer the water system to the D.J. Nelson Family Trust. In D.07-12-031, dated December 20, 2007, the Commission authorized the transfer of the water system from the D.J. Nelson Family Trust to Cook Endeavors, a California corporation.

In January, 2003, the California Regional Water Quality Control Board issued an order, pursuant to Water Code § 13267, requiring Fruitridge to submit a technical Report of Findings regarding the contamination of Wells 1, 2, 11, and 12.² That order requires specific testing and analysis be performed.

On August 29, 2005, the California Department of Public Health (DPH) issued Compliance Order No. 01-09-05-CO-002, ordering Fruitridge to develop new water supply (through new wells or purchased water) to serve current users and new development projects in its service territory.

In D.06-04-073, dated April 27, 2006, the Commission approved a settlement agreement for a comprehensive solution to Fruitridge's water supply situation.³ The comprehensive solution consists of establishing two new interconnections with the City of Sacramento, the purchase of water

² Multiple wells were affected when certain underground storage tanks leaked petroleum hydrocarbon contaminants into the ground water. Legal actions were then being pursued by Fruitridge against companies responsible for the contamination.

³ The settling parties included Fruitridge, the Housing Authority of the County of Sacramento, the County of Sacramento, the Sacramento Housing and Redevelopment Agency, David R. and Donna L. Gonzales, Mercy Properties California, Victoria Station LLC, Park Place LLC (Riverdale Project), Saia Motor Freight Line, Inc., Trench Plate Rental Co., and Soccer Planet. While not settling parties, DPH and the Central Valley Regional Water Quality Control Board also supported the settlement.

from the City of Sacramento as needed, the construction of three new wells, associated piping and pressure infrastructure, and the destruction of Well Nos. 1, 2, 11, and 12.⁴ The Commission authorized funding for this comprehensive solution, which is estimated to cost \$12.0 million, to come from the following sources: DPH Drinking Water Treatment and Research Fund (\$4.54 million), a new special facilities fee (\$2.23 million), an expected 20-year financing agreement with the City of Sacramento (\$1.98 million), an expected State Revolving Fund zero interest loan (\$3.27 million), possible monetary recovery from parties responsible for the contamination and ratepayers.

Fruitridge's income statement, for the year ended December 31, 2006, included in Exhibit A to the Application, presents total operating revenues of \$1,532,054, and a net loss of \$102,775. The balance sheet, as of December 31, 2006, also included in Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Current and Accrued Assets	\$ 1,237,971
Deferred Charges	66,970
Investment	6,796
Net Utility Plant	<u>4,375,003</u>
 Total Assets	 <u>\$ 5,686,740</u>
 <u>Liabilities & Stockholders' Equity</u>	
Current and Accrued Liabilities	\$ 202,813
Long-Term Debt	0
Deferred Credits	1,236,822
Net Contributions in Aid of Construction	3,034,910
Proprietary Capital	<u>1,212,195</u>

⁴ The cost of the construction of two wells and associated infrastructure and two interconnections with the City of Sacramento was estimated at \$4.12 million.

Total Liabilities & Capital \$ 5,686,740

3. Notice and Protests

Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 21, 2008 and May 6, 2008. No protests have been received.

4. Description of Financing

In this Application, Fruitridge seeks authority to enter into a loan agreement with the Lender for \$500,000, to be secured by a First Deed of Trust on the Well No. 18 parcel, or the Pacific School Well Site, located on the northeast corner of Highway 99 and 47th Avenue, in Sacramento, California.

Fruitridge indicates, in Exhibit C to the Application, that the loan will carry an interest rate of 8.5%, with a term of ten years, and will be repaid by amortizing monthly installment payment of \$6,199.29. The loan is subject to final underwriting and due diligence, review of an Appraisal and an Environmental Report, and approval by the Lender's authorized management personnel.

5. Use of Proceeds

The Application states that the requested \$500,000 loan is to provide funds to complete Well No. 18, which is an integral part of the overall comprehensive solution as approved by D.06-04-073.

Using the proceeds of debt issues for the construction or improvement of facilities are proper uses of funds, pursuant to § 817(b).

6. Construction Budget

Fruitridge's 3-year construction budget, as shown in Exhibit B of the Application, follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Land	\$ 0	\$ 0	\$ 0	\$ 0
Water Supply				
City Connection	1,956,345	0	0	1,956,345
Northwest Pipelines	150,672	0	0	150,672
Southwest Pipelines	1,021,208	0	0	1,021,208
Well #18	1,173,891	0	0	1,173,891
Well #19 & 20	33,384	0	0	33,384
Engineering & Planning	305,544	0	0	305,544
Permitting & Legal	37,543	0	0	37,543
CEQA	7,791	0	0	7,791
Miscellaneous	<u>0</u>	<u>120,000</u>	<u>120,000</u>	<u>240,000</u>
Total	<u>\$4,686,378</u>	<u>\$120,000</u>	<u>\$120,000</u>	<u>\$4,926,378</u>

The cost components for the completion of Well #18 follows:

Test Well	\$ 58,098
Well Drilling	223,312
Equipment/Site Work	842,011
Land Cost	<u>50,470</u>
Total	<u>\$1,173,891</u>

Fruitridge intends to use the \$500,000 of the loan proceeds to fund the completion of Well No. 18. Of the total cost of \$1,173,891, to complete the well, \$606,858 of the funds came from special facilities fees, and \$67,033 was funded by Fruitridge. Pursuant to § 817(b), the construction or improvements of a company's facilities are proper uses of the loan proceeds, for financing authority. However, we will not make a finding in this decision on the reasonableness of Fruitridge's construction program. The reasonableness of plant additions are normally addressed in general rate cases.

7. Cash Requirements Forecast

Fruitridge's 3-year cash requirements forecast, shown in Exhibit B to the Application, is summarized as follows:⁵

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Funds for construction	\$4,686,378	\$ 120,000	\$ 120,000	\$4,926,378
Bonds, Notes retired	19,003	34,843	37,923	91,769
City of Sacramento payment	133,178	133,618	133,728	400,524
Preferred Shares retired	0	0	0	0
Refunds of advances	4,260	4,260	4,260	12,780
Installment contract principal payment	28,467	30,261	12,745	71,473
Short-term debt repaid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Total Funds Needed	 \$4,871,286	 \$ 322,982	 \$ 308,656	 \$5,502,924
 Estimated Cash Available from Internal Sources	 319,084	 402,428	 315,166	 1,036,678
Advances and contributions	<u>2,163,000</u>	<u>0</u>	<u>0</u>	<u>2,163,000</u>
Total Cash Available	\$2,482,084	\$402,428	\$315,166	\$3,199,678
 Additional New Funds Required from Outside Sources	 <u>\$2,389,202</u>	 <u>(\$79,446)</u>	 <u>(\$ 6,510)</u>	 <u>\$2,303,246</u>

Fruitridge's projected cash requirements indicate that internally generated funds will provide approximately \$1.04 million or 19% of its cash requirements of \$5.5 million for years 2008 through 2010. Of the total \$2.3 million in external funding requirements, approximately \$1.9 million will be provided by the City of Sacramento. The requested \$500,000 debt issue, the subject of this Application, appears necessary to help Fruitridge meet its total projected \$2.3 million external funds requirements.

⁵ Revised by Fruitridge on May 9, 2008.

7. Capital Ratios

The capital ratios, as presented by Fruitridge, in Exhibit B to the Application, are shown below, as recorded and as adjusted, to give pro forma effect to the transactions anticipated by the end of 2010:⁶

	<u>Recorded</u>		<u>Adjustments</u>		<u>Proforma</u>	
Long-term debt	\$	0	0.00%	\$4,664,856(A)	\$4,664,856	70.97%
Short-term debt		<u>60,489</u>	<u>4.75%</u>	<u>(54,605)(B)</u>	<u>5,884</u>	<u>0.09%</u>
Subtotal	\$	60,489	4.75%	\$4,610,251	\$4,670,740	71.06%
Common Equity	\$	0	0.00%	0	\$ 0	0.00%
Proprietary Capital		<u>1,212,195</u>	<u>95.25%</u>	<u>689,921(C)</u>	<u>1,902,116</u>	<u>28.94%</u>
Total Capitalization		<u>\$1,272,684</u>	<u>100.00%</u>	<u>\$5,300,172</u>	<u>\$6,572,856</u>	<u>100.00%</u>

A. Long-term Debt:

- (1) Issuance of \$500,000 debt requested in this Application;
- (2) \$1,956,345 funding agreement with City of Sacramento;
- (3) \$3,272,505 Safe Drinking Water State Revolving Fund loan; and
- (4) Projected loan payments to the Lender, the City of Sacramento, and DPH, totaling \$1,063,994.

B. Short-term Debt:

- (1) Net decrease in short-term debt of \$54,605.

C. Equity:

- (1) Projected net change of \$689,921.

Even though the financing requested in the Application does not directly change the capital structure for ratemaking purposes, we present the recorded as compared to the proforma for illustrative purposes. As

⁶ Revised by Fruitridge on May 9, 2008.

shown above, the estimated changes in the recorded capital structure are material. However, instruments that will change the recorded capital structure are required to continue service to the customers. Capital structures are normally subject to review in cost of capital or general case proceedings. We will not, therefore, make a finding in this decision on the reasonableness of the projected capital ratios for ratemaking purposes.

8. Loan Approval

Fruitridge's request to issue debt is subject to §§ 816 *et seq.*, which provide, in relevant part as follows:

Section 816: The power of public utilities to issue... evidences of indebtedness and to create liens on their property situated within this State is a special privilege, the right of supervision, regulation, restriction, and control of which is vested in the State, and such power shall be exercised as provided by law under such rules as the commission prescribes.

Section 817: A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

(b) For the construction, completion, extension, or improvement of its facilities.

Section 818: No public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness payable at periods of more than 12 months..., in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied...

Section 851: No public utility... shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its... plant, system, or other property necessary or useful in the performance of its duties to the public....without first having secured from the commission an order authorizing it so to do.

The Commission has broad discretion under §§ 816 *et seq.*, to determine if a utility should be authorized to issue debt. The primary standard used by the Commission is whether a utility has demonstrated a reasonable need to issue debt for proper purposes.⁷

Fruitridge's proposed system improvement is for the public good, and is an integral part of the overall comprehensive solution approved by D.06-04-073. We will approve the financing authority requested in the Application. However, we will not make a finding in this decision on the reasonableness of the debt costs.

Considering that the Lender requires the submission of an Environmental Report, we expect Fruitridge to comply with any environmental permitting requirements applicable to Well No. 18.

10. Fees

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with § 1904(b).⁸

The fee is \$1,000 for this financing authority, as set forth by § 1904(b).⁹

11. Categorization and Need for Hearings

⁷ The term "proper purposes" means any expenditure that is necessary or proper to promote legitimate objects of a public utility of the type concerned. (207 Cal 630 (1929).)

⁸ The Application acknowledges that a fee prescribed by § 1904, will be imposed.

⁹ The fee is assessed on \$500,000 as follows: (\$2 times (\$500,000/\$1,000) equals \$1,000.

In Resolution (Res.) ALJ 176-3211, dated April 10, 2008, 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 176-3211.

12. Waiver of Comment Period

This is an uncontested matter in which the decision pertains solely to a water company. Accordingly, pursuant to PU Code § 311(g)(3), the 30-day period for public review and comment under § 311(g)(1) does not apply.

13. Assignment of Proceeding

Rami S. Kahlon is the assigned Examiner in this proceeding.

Findings of Fact

1. Fruitridge, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. Fruitridge appears to need external funds for the purposes set forth in the Application.
3. The Lender requires Fruitridge to submit an Environmental Report.
4. The Commission does not by this decision determine that the construction budget, cash requirements forecast, capital structure, and debt costs, presented herein are necessary or reasonable for purposes of setting rates.
5. Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 21, 2008 and May 6, 2008. 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 that follows.
3. The financing authority sought in this Application is reasonably required for the purposes specified.
4. Authorizing Fruitridge to encumber utility assets as required to secure the loan is for proper purposes and not adverse to the public interest.
5. Fruitridge should pay the fee determined in accordance with § 1904(b).
6. 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, Cook Endeavors, doing business as, Fruitridge Vista Water Company (Fruitridge), upon terms and conditions substantially consistent with those set forth or contemplated in Application (A.) 08-03-012, as amended on April 30, 2008 (Application), is authorized to borrow \$500,000, from a financial institution, for the purpose of completing Well No. 18, as described in the body of this order.
2. Fruitridge is authorized to encumber its assets in connection with the debt issue.
3. Fruitridge shall keep and maintain copies of the loan contract and security agreement, and provide copies to the Division of Water and Audit's Utility Audit, Finance and Compliance Branch (UAFCB), within thirty days from request.

4. Fruitridge shall notify the UAFCB in writing of the completion date of the project.

5. On or before the 25th day of each month, and up to the date the entire loan proceeds have been expended, Fruitridge shall file with the UAFCB the reports required by General Order No. 24-B.

6. The authority granted by this order shall become effective when Fruitridge pays \$1,000, as required by Public Utilities Code § 1904(b).

7. The Application is granted as set forth above.

8. A.08-03-012 is closed.

This order is effective today.

Dated _____, at San Francisco, California.