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Decision **PROPOSED DECISION OF ALJ KENNEY** **(Mailed 10/6/2008)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Alisal Water Corporation dba Alco Water Service (U 206 W) to Issue Notes in the Principal Amount of $8,000,000 and to Execute a Related Agreement and Supplemental Security Instruments.	Application 07-10-012 (Filed October 12, 2007)

(See Appendix A for a list of appearances.)

DECISION AUTHORIZING ALCO WATER SERVICE TO ISSUE $8,000,000 OF DEBT AND EQUITY

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DECISION AUTHORIZING ALCO WATER SERVICE TO ISSUE $8,000,000 OF DEBT AND EQUITY

1. Summary

This Decision grants Alisal Water Corporation d/b/a Alco Water Service (Alco) authority under Pub. Util. Code § 816 et seq., and § 851 to issue $8 million of secured long-term debt and equity. Alco may use the debt and equity to finance additional plant, reimburse treasury funds, and repay short-term debt. Alco is also ordered to reduce its debt-to-equity ratio from approximately 10-to-1 today to 3-to-1 by December 31, 2011. Finally, Alco is required to file a general rate case application by June 1, 2009, with a 2010 test year.

2. Background

Alco is a Class B water company that serves almost 9,000 customers in the eastern portion of the City of Salinas. On October 12, 2007, Alco filed Application (A.) 07-10-012 to request authority under Pub. Util. Code § 816 et seq., and § 851[1] to issue $8 million of long-term secured debt for the purposes set forth in Table 1, below. Notice of A.07-10-012 appeared in the Daily Calendar on October 16, 2007. The Division of Ratepayers Advocates (DRA) filed a protest on November 15, 2007. There were no other protests or responses.

A prehearing conference was held on March 14, 2008, and an evidentiary hearing was held on June 3, 2008. Opening and reply briefs were filed on June 13 and June 20, 2008, respectively. The case was submitted on June 20, 2008.

DRA raised four main issues during the proceeding. First, DRA expressed concern about how Alco intended to use the proceeds of the requested debt.

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[1] All statutory references are to the Public Utilities Code unless otherwise stated.

Alco was able to demonstrate to DRA's satisfaction that Alco intended to use the debt for proper purposes.

Second, Alco's capital structure at the end of 2007 consisted of 91% long-term debt and 9% equity, a ratio of more than 10-to-1. DRA expressed concern that authorizing Alco to issue an additional $8 million of long-term debt would increase the debt-to-equity ratio even further. To address DRA's concern, Alco agreed to revise its request. Instead of issuing $8 million of long-term debt, Alco would issue $6 million of long-term debt, $2 million of preferred stock, and $0.33 million of common equity. Alco also agreed to reduce the long-term debt in its capital structure from 91% to 75% over a three-year period.

Third, preferred stock may be considered as either debt or equity, depending on its characteristics. In view of Alco's already high debt-to-equity ratio, DRA insisted that the preferred stock issued by Alco have the characteristics of equity, which are described below. Alco agreed.

Finally, DRA recommended that the Commission order Alco to file a general rate case (GRC) application. Alco opposes DRA's recommendation.

3. Summary of Request

By the time reply briefs were filed, Alco and DRA had reached an agreement on all issues except whether Alco should be required to file a GRC application. The following is a summary of Alco's request as it stood after the submittal of reply briefs.

3.1. Use of Proceeds

Alco requests authority under Pub. Util. Code § 816 et seq., and § 851 to issue $6 million of long-term secured debt, $2 million of preferred stock, and $0.33 million of common equity for the following purposes:

Table 1	
Purpose	**Amount**
Repay capital leases executed in 2005 and 2006 for water plant	$ 1,118,260
Repay short-term notes executed in 2006 and 2007 to finance new water plant	$ 936,000
Reimburse treasury funds expended in 2005 and 2006 to finance new plant and equipment	$ 2,565,740
Install water mains pursuant to a federal court order	$ 1,200,000
Install pumping equipment, pump houses, & ancillary plant and equipment for three new wells	855,000
Install automatic meter reading system, including radios, antennas, software, and meters	$ 700,000
Debt issuance costs and contingency reserve for the above projects	$ 625,000
Total	**$8,000,000**

Although Alco requests authority to issue $8.33 million of debt and equity, Table 1 shows that Alco has plans to use only $8.0 million of the proceeds.

Alco represents that all of the requested debt and equity will be used to finance or refinance plant and equipment needed to serve customers in Alco's service territory as it existed prior to Resolution W-4630.[2] Additional details regarding Alco's proposed uses of the debt and equity are set forth below.

[2] Resolution W-4630, dated April 12, 2007, authorized Alco to expand its service territory to include a proposed subdivision. Alco represents that all of the facilities needed to serve the new territory will be paid by developers requesting water service and that the financing of such facilities will occur in accordance with Tariff Rule 15 that governs main extensions. (Alco's Response to DRA's protest, p. 10.)

3.1.1. Repayment of Capital Leases

In 2005 and 2006, Alco acquired a truck, an excavator, and a trailer at a cost of $1,118,260. The equipment was financed with capital leases and is included in Alco's rate base. The average interest rate of the capital leases is 9.47%.

3.1.2. Repayment of Short-Term Notes and Treasury Funds

Alco represents that it used $2,565,740 of "treasury funds" in 2005 and 2006 and $936,000 of short-term debt in 2007 to finance the acquisition of utility plant and equipment. All of the treasury funds and short-term debt were borrowed from Alco's President, Thomas Adcock. Alco requests authority to repay the treasury funds and short-term debt from the proceeds of the debt and equity requested in this proceeding.

3.1.3. Install Water Mains Pursuant to a Federal Court Order

A federal court order issued in April 2002 required Alco to install the improvements listed in the Black and Veatch Report that is referenced in the court order.[3] The court-required improvements include water mains. Commission Resolution W-4577, dated December 15, 2005, authorized Alco to install the water mains at a cost of $1.2 million and to include them in rate base.

3.1.4. Pump Facilities

Commission Resolution W-4577 authorized Alco to install three new water wells, which Alco intends to finance with the proceeds of the long-term debt authorized by D.06-01-039. In this proceeding, Alco requests authority to issue

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[3] *United States v. Alisal Water Corp.* (9th Cir. 2002) 326 F. Supp. 2d 1010.

$855,000 of debt and equity to pay for pumps, pump houses, back-up generators, and other plant and equipment associated with the three new wells.

3.1.5. Automatic Meter Reading System

Alco intends to install an automatic meter reading (AMR) system at a cost of $700,000. There is currently no Commission Decision or Resolution that authorizes Alco to install an AMR system or to recover the costs of an AMR system. Alco intends to use the proceeds of the debt and equity requested in this proceeding to pay for the AMR system.

3.2. Requested Debt and Equity

3.2.1. Long-Term Secured Debt

Alco requests Commission authority to issue $6 million of long-term debt secured by utility assets. Alco has received a letter from Wulff, Hansen & Co., Investment Bankers (Wulff) that provides the basic terms under which Wulff and Redwood Securities Group, Inc., would offer private placement services for the proposed debt. The letter states, among other things, that the anticipated term of the debt is 20 years, the interest rate will not exceed 9%, and that the debt may be secured by Alco's utility assets. A copy of the letter is attached to A.07-10-012.

Alco anticipates the interest rate will be in the range of 7.5% to 9.0% based on Wulff having sold $8.5 million of Alco's 20-year secured bonds in May 2007 at an interest rate of 7.85%. The final interest rate will be determined based on market conditions at the time the debt is issued. Copies of the executed debt documents will be provided to the Commission when they are completed.

3.2.2. Preferred Stock and Common Equity

Alco's debt-to-equity ratio is currently more than 10-to-1. Alco and DRA agree that Alco should reduce its debt-to-equity ratio to 3-to-1 over a three-year period. To help achieve this objective, Alco now requests authority to issue $6 million of long-term debt, $2 million of preferred stock, and $0.33 million of common equity. The preferred stock will be issued to Thomas Adcock, the President of Alco. The common stock will be issued to Patricia Adcock, the mother of Thomas Adcock. Alco proposes to issue the preferred stock within 180 days from the date that Alco's $6 million loan closes. The common equity would be issued, as necessary, to achieve a debt-to-equity ratio of 3-to-1 over a three-year period.

Alco agrees to cap the dividend on the preferred stock at 8.5%. Alco believes this rate is consistent with the current market rate for preferred stocks issued by comparable water utilities. For example, the preferred stock of Valencia Water Company has a dividend of 9.5%. In addition, by investing in the preferred stock, Thomas Adcock will forgo other investment opportunities for a period of 20 years or more with no ability to redeem the preferred stock once it is issued. And because Alco's stock is not publicly traded, there will be little or no opportunity to sell the preferred stock if that were to become necessary. Alco believes that these factors together demonstrate that it is reasonable and necessary to pay a dividend of 8.5% to attract investment.

Alco recognizes that preferred stock can be considered as either debt or equity, depending on its characteristics. In order to reach a debt-to-equity ratio of 3-to-1, Alco's preferred stock would have to be classified as equity.

Standard & Poor's (S&P) identifies four characteristics of equity capital. These characteristics are: (1) there are no ongoing payments that could lead to default; (2) there is no maturity or repayment requirement; (3) it provides a cushion for creditors in the case of a bankruptcy; and (4) it is expected to remain a permanent part of the capital structure. Alco represents that its preferred stock will satisfy these four criteria. First, the preferred stock will not have any ongoing payments that could lead to default because the preferred stock will include provisions that (i) prohibit preferred shareholders from foreclosing upon the utility if dividends are not paid, and (ii) prohibit Alco's Board of Directors from declaring a preferred dividend that would cause the utility to default on any of its obligations. The dividends on the preferred stock will be non-cumulative (unlike interest on debt), and the preferred stock will not have any voting rights at shareholder meetings.

Second, the preferred stock will not have any maturity date or repayment schedule, and there will not be a sinking fund established to accumulate funds to buy back the preferred stock. Alco states that it will be the only entity that has authority to call and retire the preferred stock. Thus, there will be no right to sell the preferred stock back to Alco (i.e., a put option). Alco also agrees to not retire the preferred stock unless it has a debt-to-equity ratio of 3-to-1, and only to the extent that it maintains that equity ratio after the retirement.

Third, the preferred stock will provide a cushion for creditors in the case of a bankruptcy because, in the event of liquidation or reorganization, creditors will have priority over the preferred shareholder(s). Any remaining assets will go first to the preferred shareholder(s) and then to the common shareholders. Alco also agrees that no dividends will be paid on the preferred stock if doing so would threaten Alco's ability to pay its operating expenses.

Finally, Alco expects the preferred stock to be a permanent feature of its capital structure. The purpose of the preferred stock is to help achieve a debt-to-equity ratio of 3-to-1 by the year 2012. The preferred stock will remain in Alco's capital structure until such time that its retirement would not cause the debt-to-equity ratio to exceed 3-to-1.

3.3. Sources of Revenue to Pay for Requested Debt and Equity

Alco plans to pay for the debt and equity requested in this proceeding (i.e., debt principal, interest, and preferred stock dividends) with the cash received in rates for the depreciation expense and rate of return on the rate base that is financed with the requested debt and equity.

To demonstrate that it can pay for the requested debt and equity, Alco provided a forecast of rate base, revenues, expenses, net income, and debt principal and interest payments for the years 2008 through 2011. The forecast includes (1) additions to rate base that are financed with the debt and equity requested in this proceeding, (2) increased revenue from rate base additions (i.e., reimbursement of deprecation expense and rate of return), and (3) interest on the $6 million of requested debt. Forecasted interest was calculated assuming that new debt of $6 million was in place on January 1, 2009, at a rate of 8.5%.

4. Disputed Issue: Need for General Rate Case

The only dispute between Alco and DRA is whether Alco should be required to file a GRC application. The positions of DRA and Alco are summarized below.

4.1. DRA

Alco intends to place into rate base the new plant and equipment financed by the requested debt and equity and to recover the associated revenue requirement in advice letter filings known as rate-base offsets.[4] DRA

[4] The purpose of most of the debt and equity requested by Alco in this proceeding is to (i) refinance plant and equipment that is already included in rate base, and (ii) pay for debt and equity issuance costs.

recommends that the Commission order Alco to file a GRC application, as Class A water utilities are required to do, in lieu of rate base offsets.

DRA states that Resolutions W-4577 and W-4645 established an authorized rate of return of 9.86%. However, as shown in Table 2 below, DRA argues that Alco's authorized rate of return in 2009 should be reduced to 8.46% based on (1) Alco's embedded cost of debt and equity, and (2) the projected cost of debt and equity requested in this proceeding.

Table 2

	Amount	Capital Ratios	Cost Factors	Weighted Cost Factors
2007 "A" Bond	$8,030,000	45.42%	7.85%	3.57%
A.07-10-012 Debt	5,915,000	33.46%	8.50%	2.84%
Preferred Stock	2,000,000	11.31%	8.50%	0.96%
Common Equity	1,732,971	9.80%	11.06%	1.08%
Total	**$17,677,971**	**100.00%**		**8.46%**
Sources: Application 07-10-012, Attach. J; Alco Exhibit 1, Attach. A and B.				

DRA argues that the Commission needs to adjust Alco's rates so it does not earn a rate of return in 2009 that is 1.4% above its projected cost of capital (9.86% vs. 8.46%). A rate base offset is not the proper vehicle for adjusting Alco's rates, according to DRA, because it is limited to plant additions; it does not adjust rates to reflect changes to capital structure, cost of capital, or reductions to plant for accumulated depreciation.[5] DRA submits that the best means for adjusting Alco's rates to reflect all of these items is a GRC.

[5] Commission Water Standard Practice U-27-W, Para. 9 (definition of "rate base offset").

4.2. Alco

Alco contends that DRA's proposed GRC proceeding is outside the scope of this proceeding, which is limited to Alco's request to issue new debt and equity. Alco states that because it is a Class B water utility, it is not required to file a GRC, but may file rate-base offsets or GRCs as it deems necessary. Alco plans to file rate-base offsets to recover all the expenses related to the new plant that is financed by the debt and equity requested in the instant proceeding.

Alco believes a GRC is unnecessary because the Commission recently reviewed and approved the bulk of Alco's capital program in Resolution W-4577. The only major project not yet authorized is the proposed AMR system in the amount of $700,000. Moreover, if Alco is required to file a GRC application, Alco intends to seek a rate increase to recover all of its rising costs, not just the cost of the rate base additions. Alco asserts that the likely result is that ratepayers will probably see a larger rate increase with a GRC compared to a rate-base offset.

Alco also contends that DRA's proposed GRC is premised on a flawed calculation of Alco's cost of capital. First, while DRA used the stated interest rate of 7.85% on existing debt, Alco asserts this ignores bond issuance costs of $587,735 which represent an additional interest rate of 0.56%. Therefore, Alco submits that the actual interest rate is 8.41%. Second, DRA assumed the $6 million of long-term debt requested in the current proceeding will have an interest rate of 8.5%. Because the new debt will have issuance costs, Alco believes it is likely the new debt will have an interest rate of 9% (8.5% + 0.5% issuance costs). Finally, DRA assumed a return on equity (ROE) of 11.06%. However, California Water Service (CWS) filed an Application on May 1, 2008, requesting an ROE of 12.57%. Alco believes its ROE should be at least 200 basis points higher than CWS, or 14.57%.

As shown in the Table 3 below, Alco calculates that its cost of capital will be 9.22% in 2009, which is higher than the 8.45% calculated by DRA:

Table 3

	Capital Amount	% of Capital Structure	Cost	Weighted Cost
2007 "A" Bond	$8,030,000	45.42%	8.41%	3.82%
2008 Bond	5,915,000	33.46%	9.0%	3.01%
Preferred Stock	2,000,000	11.31%	8.5%	0.96%
Common Stock	1,732,971	9.80%	14.57%	1.43%
Total	**$17,677,971**	**100.0%**		**9.22%**

Alco believes that its estimated cost of capital for of 9.22% for 2009 is close enough to its authorized rate of return of 9.86% so as to obviate the need for a GRC proceeding.

5. Discussion

The authority requested by Alco is subject to § 816 et seq. and § 851 which state, in relevant part, as follows:

> **§ 816:** The power of public utilities to issue [debt and equity] and to create liens on their property… 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…under such rules as the commission prescribes.
>
> **§ 817:** A public utility may issue [long-term debt and equity] for any of the following purposes and no others:
>
> (a) Acquisition of property.
>
> (b) Construction, completion, extension, or improvement of its facilities.
>
> (c) Improvement or maintenance of its service.
>
> (d) Discharge or lawful refunding of its obligations.
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> • • •

(g) Retirement of or in exchange for…outstanding [debt or equity]…, with or without the payment of cash.

(h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility … for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

§ 818: No public utility may issue [debt or equity]…unless…it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the…proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that…such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

§ 819: The commission may by its order grant permission for the issue of such stocks…or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness in the amount applied for, or in a lesser amount, or refuse such permission, or grant it subject to such conditions as it deems reasonable and necessary. The commission may authorize issues of bonds, notes, or other evidences of indebtedness, less than, equivalent to or greater than the…capital stock of a public utility corporation.

§ 823(a): No public utility shall, without the consent of the commission, apply any…of the [proceeds from debt and equity] to any purpose not specified in the commission's order, or to any purpose specified in the order in excess of the amount authorized for such purpose.

§ 823(d): No note payable at a period of not more than 12 months after the date of issuance of such note shall, in

> whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.
>
> **§ 825:** All [debt and equity] of a public utility, issued without an order of the commission…is void. No failure in any other respect to comply with…the order of authorization of the commission shall render void any [debt or equity], except as to a corporation or person taking it otherwise than in good faith and for value and without actual notice.
>
> **§ 851:** No [utility]…shall…encumber…any part of its…property necessary or useful in the performance of its duties to the public, or any franchise or permit or right thereunder…without first having secured from the commission an order authorizing it to do so. Every such…encumbrance…made other than in accordance with the order authorizing it is void.

The Commission has broad discretion under § 816 et seq., and § 851 to determine if a utility should be authorized to issue secured debt and equity. The primary standards used by the Commission are whether a utility has demonstrated a need to issue debt and equity for utility-related purposes, and whether the utility has the ability to pay for the requested debt and equity. The Commission may also use its authority under § 819 to attach conditions to the issuance of debt and equity in order to protect and promote the public interest.

There are three main issues associated with A.07-10-012. These are:

1. Whether Alco should be granted prospective authority to issue $8.33 million of debt and equity for the purposes identified above in Table 1.
2. Whether Alco should be required to reduce its debt-to-equity ratio and, if so, over what period of time.
3. Whether Alco should be required to file a GRC application.

We address each of these issues below.

5.1. Authority to Issue Debt and Equity

We first consider Alco's request for authority under § 816 et seq., to issue long-term debt and equity. As shown in Table 1 above, Alco has identified $8.0 million of proposed uses for the requested debt and equity. These purposes are: (1) repay capital leases executed in 2005 and 2006 for utility vehicles and equipment; (2) repay short-term notes executed in 2006 and 2007 to finance new water plant; (3) reimburse treasury funds expended in 2005 and 2006 to finance new water plant; (4) install water mains pursuant to a federal court order; (5) install an AMR system; and (6) pay for debt issuance costs and establish a contingency reserve for the above projects. These purposes are authorized by §§ 817 and 823(d). As required by § 818, these purposes are not reasonably chargeable to current operating expense or income.

To support its request, Alco provided a summary of unreimbursed construction expenditures for 2005 and 2006, forecasts of cash flow (including constructions costs) and external financing for 2007 and 2008, and forecasts of annual revenues, expenses, debt, and equity for 2007 through 2011. Based on this information, we find that Alco has a reasonable need to issue $8.0 million of debt and equity for the previously stated purposes, and that Alco has the ability to pay for the cost of the requested debt and equity capital.[6]

For the preceding reasons, we will grant Alco prospective authority under § 816 et seq., to issue $8.0 million of debt and equity. Although today's Decision

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[6] The financial information appended to A.07-10-012 and Alco Hearing Exhibits 1 and 3 show that Alco will have sufficient revenues to pay for debt and equity authorized by today's Decision, provided that Alco receives future rate increases to recover the cost of utility assets financed by the debt and equity authorized by today's Decision.

authorizes $8.0 million of debt and equity, Alco requested authority to issue $8.33 million. Alco intends to issue an additional $0.33 million of common equity, if necessary, to lower its debt-to-equity ratio to 3-to-1. Utilities are not authorized by § 817 to issue equity for this purpose. Accordingly, we decline to grant Alco's request to do so. However, in light of Alco's excessively high debt-to-equity ratio, we will authorize Alco to issue $0.33 million of common equity instead of additional debt. Thus, the amount of debt and equity authorized by today's Decision is $5.67 million of long-term debt, $2 million of preferred stock, and $0.33 million of common equity, for a total of $8.0 million.

We next consider Alco's request for authority under § 851 to issue debt secured by utility assets. Public utilities routinely issue secured debt because such debt is usually cheaper than non-secured debt. Therefore, we find Alco's request to be reasonable, and we will grant it. However, if a default occurs and title to any property, franchise, permit, or right that is necessary or useful in the performance of Alco's duties to the public is transferred pursuant to the terms of the secured debt, the thing transferred shall not be removed from utility service without prior authorization from the Commission.

The debt and equity authorized by today's Decision is subject to the following conditions:

1. Consistent with § 823(a) and § 823(d), Alco shall use the proceeds of the debt and equity authorized by today's Decision for only those purposes identified in Table 1 above. Today's Decision does not authorize the use of these proceeds to finance plant and equipment needed to serve new customers in the service territory that is the subject of Investigation (I.) 07-06-020 and Resolution W-4630.

2. Consistent with § 823(d), Alco may use the debt and equity authorized by this Decision to repay treasury funds and

short-term debt only to the extent the treasury funds and short-term debt were used to finance the acquisition of utility plant and equipment.

3. To provide Alco with financial flexibility, Alco may allocate the proceeds from the authorized debt and equity among the purposes authorized by today's Decision as Alco deems necessary.

4. Alco shall not issue debt or equity to finance an AMR system until after Alco has received Commission authorization to install an AMR system.

5. Alco's authorized use of proceeds includes $1,118,260 to repay capital leases executed in 2005 and 2006. Because the lease balances should decline over time as lease payments are made, the total amount of debt and equity that Alco is authorized to issue by today's Decision shall be reduced by an amount equal to the difference between $1,118,260 and the actual lease balances that are paid off.

6. Alco shall not issue common equity to the extent that doing so results in a transfer of control of Alco.

7. The preferred stock dividends shall not exceed 8.5%. The owner(s) of the preferred stock shall not have voting rights at stockholder meetings or any rights to participate in earnings.

Consistent with § 824, Alco shall maintain records to (1) identify the specific long-term debt and equity issued pursuant to today's Decision, and (2) demonstrate that proceeds from such debt and equity has been used only for the purposes authorized by today's Decision.

5.2. Authorized Capital Structure

At the end of 2007, Alco's capital structure consisted of 91% long-term debt and 9% equity,[7] a ratio of more than 10-to-1. While debt is usually a cheaper source of capital than equity, debt is also a riskier source. In general, the more debt a utility has, the higher the financial risks for both creditors and stockholders. This, in turn, increases the cost of both debt and equity capital.

A highly leveraged capital structure like Alco's increases financial risk because of the demands it places on a utility's cash flow. The required payments of debt principal and interest can consume a significant portion of the cash generated by the utility. An unexpected shortfall in cash flow may leave the utility with insufficient cash to simultaneously meet its scheduled debt payments, fund needed capital expenditures, and pay for operating expenses.

Alco's current debt-to-equity ratio in excess of 10-to-1 creates a level of financial risk that is inappropriate for a public utility water company. Therefore, we approve Alco and DRA's agreement to reduce Alco's debt-to-equity ratio to 3-to-1. Alco shall achieve the required debt-to-equity ratio by December 31, 2011. Beginning in 2012, Alco shall not exceed a debt-to-equity ratio of 3-to-1 without Commission authorization.

To ensure that Alco makes steady progress in reducing its excessive level of debt, we will require Alco to reach a debt-to-equity ratio of 5-to-1 by the later of December 31, 2009, or 180 days after Alco issues any of the debt authorized by today's Decision. Alco shall then reach a debt-to-equity ratio of 4-to-1 by the end of 2010, and 3-to-1 by the end of 2011. Alco may issue more preferred stock and

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[7] Alco Exhibit 1, Attachment A.

common equity than authorized by today's Decision in order to meet these deadlines, provided there is a corresponding reduction to the amount of long-term debt issued pursuant to today's Decision, so that the total debt and equity issued pursuant to today's Decision does not exceed $8.0 million. If Alco needs to issue more equity than authorized by today's Decision in order to meet the targeted debt-to-equity ratios, Alco may file an application to request the necessary authority to issue the additional equity.

In its comments on the proposed decision, Alco states that it may have difficulty issuing the debt authorized by today's Decision due to extraordinary turmoil in the financial markets. If this problem materializes, Alco may seek to postpone the deadlines established by today's Decision for achieving the prescribed debt-to-equity ratios by filing a petition to modify today's Decision.

To ensure that the preferred stock issued by Alco is equity, and not another form of debt, the preferred stock issued pursuant to today's Decision shall possess the following characteristics:

- The preferred-stock dividends shall be paid quarterly and shall be non-cumulative. Those dividends that are not paid in a quarter shall be canceled and not carried into a future quarter.
- The preferred stock shall be a permanent part of Alco's capital structure. The owner(s) of the preferred stock shall not have the right to sell the stock back to Alco, and Alco may not redeem the preferred stock without prior Commission authorization. Any redemption will be at the original cost of the preferred stock.
- To ensure that Alco has sufficient cash to fund utility operations and make scheduled debt payments, preferred-stock dividends shall be paid only when cash flow from operations as defined by Generally Accepted Accounting Principles exceeds the sum of (1) capital lease payments, plus (2) dividends on the preferred stock, plus (3) debt principal payments, plus (4) interest payments to the extent interest is not subtracted from cash flow

from operations, plus (5) 10% of the sum or the previous four items.

- The capital, financial, and operating needs of the utility shall have priority over the payment of preferred-stock dividends and the redemption of preferred stock. Alco shall not pay preferred-stock dividends or buy back preferred stock if doing so jeopardizes Alco's ability to pay debt principal and interest, fund utility operations, or provide public utility services.

5.3. General Rate Case

We conclude that Alco should file a GRC application by June 1, 2009, with a 2010 test year. A GRC proceeding is necessary given that DRA and Alco have separately projected that Alco's cost of capital in 2009 will be less than Alco's currently authorized rate of return of 9.86%.[8] A GRC proceeding will provide an appropriate forum for determining Alco's actual cost of capital and adjusting its authorized rate of return, as necessary.[9] More importantly, the $8 million of debt and equity authorized by today's Decision is equal to 140% of Alco's revenues in 2007 and 84% of Alco's rate base in 2007.[10] We believe that a transaction of this magnitude calls for an in-depth Commission review of Alco's operations via a

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[8] DRA projects that Alco's weighted cost of capital will be 8.46% in 2009, and Alco projects that it will be 9.22%.

[9] Today's Decision does not make any findings regarding Alco's projected cost of capital for 2009, other than to note that both DRA and Alco project that Alco's cost of capital in 2009 will be less than its authorized rate of return.

[10] Alco's revenues and rate base for 2007 were $5.7 million and $9.56 million, respectively (Resolution W-4645, Appendix B). $8 million is 139.7% of Alco's revenues in 2007 ($8,000,000/$5,724,415) and 83.7% of Alco's 2007 rate base in 2007 ($8,000,000/$9,558,547).

formal GRC proceeding in order to ensure the public's continued confidence in the reasonableness of Alco's rates and service.

A GRC proceeding will also provide an opportunity to verify that Alco has used the proceeds of the debt and equity authorized by today's Decision for proper purposes. To this end, we will require Alco to attach to its GRC application a report that shows how much debt and equity it has issued pursuant to today's Decision; identifies the specific bank account(s) that Alco has established pursuant to General Order 24-B, Section C, to receive and disburse these funds; lists the disbursements of these funds; and describes how these disbursements are only for uses that comply with today's Decision.

We will likewise direct DRA to audit Alco's use of the proceeds of the debt and equity authorized by today's Decision to verify that such uses comply with today's Decision. DRA shall submit an audit report during the GRC at a time to be determined by the scoping memo. The scope of DRA's audit shall include an examination of whether the treasury funds that are refunded and short-term debt that is retired by the debt and equity proceeds were actually used to acquire utility plant and equipment in 2005, 2006, and 2007.

In its comments on the proposed decision, Alco asks for permission to use the advice letter process for the GRC, stating that a formal application process could be very expensive. Alco estimates that a formal GRC proceeding will require at least 600 attorney hours at an average cost of $550 per hour, plus additional costs for temporary accounting help, lodging in San Francisco while the GRC is underway, and other GRC-related expenses.

We appreciate Alco's concerns about the costs of a formal GRC proceeding. Nonetheless, we conclude that a formal GRC proceeding is warranted for the previously stated reasons. Alco may recover the reasonable costs that it incurs for a formal GRC proceeding. As always, Alco will have the burden of demonstrating the reasonableness of its GRC costs. We caution Alco that it should use expensive attorneys only when absolutely necessary. Work performed by attorneys at a cost of $550 per hour may be disallowed if the work can be accomplished through less expensive means.

Alco also states in its comments on the proposed decision that it does not know when it will be able to issue the debt authorized by today's Decision due to the current worldwide financial crisis. Because of this, Alco recommends that the requirement to file a formal GRC application be modified to require Alco to file the application no later than 180 days after Alco obtains the debt proceeds.

We decline to adopt Alco's recommendation. However, if Alco is delayed in the issuance of the debt authorized by today's Decision due to ongoing turmoil in the financial markets such that Alco cannot provide in a GRC application filed on June 1, 2009, the information required with respect to the debt authorized by today's Decision, then Alco may request, pursuant to Rule 16.6 of the Commission's Rules of Practice and Procedure (Rule), an extension of up to 6 months to file a formal GRC application with a 2010 test year. Any such request should explain why Alco cannot file by June 1, 2009, the GRC application contemplated by today's Decision. Any further extension of time should be sought through a petition to modify today's Decision.

6. Exemption from the Competitive Bidding Rule

Resolution No. F-616, issued on October 1, 1986, requires utilities with bond ratings of "A" or higher to issue debt through competitive bids. Debt issues of $20 million or less are exempt. The debt authorized by today's Decision is exempt from the Competitive Bidding Rule because it is less than $20 million.

7. Quarterly Reporting for General Order 24-B

General Order (GO) 24-B requires utilities to submit a monthly report that contains, among other things, the following information: (i) the amount of debt and equity issued by the utility during the previous month; (ii) the total amount of debt and equity outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds realized from the issuance of debt and equity during the prior month; and (iv) a monthly statement of the separate bank account the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and equity.

GO 24-B applies to the debt and equity authorized by today's Decision. Although GO 24-B requires monthly reporting, the Commission routinely permits utilities to report quarterly in order to reduce the administrative cost of complying with the General Order.[11] There does not appear to be a need at this time for Alco to report monthly. Therefore, we will authorize Alco to report quarterly the information required by GO 24-B, except that Alco shall report monthly if directed to do so by the staff of the Commission's Water Division or successor organization. The quarterly reports shall be submitted no later than 25 days after the close of a calendar quarter. Consistent with § 824, Alco's reports shall demonstrate that the proceeds from any debt and equity issued pursuant to today's Decision have been used only for the purposes authorized by this Decision.

[11] See, e.g., D.07-09-007, D.07-08-012, D.07-06-039, D.03-12-052, and D.00-12-064.

8. Fee for Authority to Issue Debt and Equity

Whenever the Commission authorizes a utility to issue debt and equity, the Commission is required to collect a fee in accordance with § 1904(b) and § 1904.1. These code sections state, in relevant part, as follows:

> **§ 1904(b)**: For a certificate authorizing an issue of bonds, notes, or other evidences of indebtedness, two dollars ($2) for each one thousand dollars ($1,000) of the face value of the authorized issue or fraction thereof up to one million dollars ($1,000,000), one dollar ($1) for each one thousand dollars ($1,000) over one million dollars ($1,000,000) and up to ten million dollars ($10,000,000), and fifty cents ($0.50) for each one thousand dollars ($1,000) over ten million dollars ($10,000,000), with a minimum fee in any case of fifty dollars ($50). No fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has theretofore been paid to the commission.
>
> **§ 1904.1:** The commission shall also charge and collect a fee for a certificate authorizing an issue of stock, which fee shall be computed at the rates set forth in subdivision (b) of Section 1904 and determined by the commission upon the basis of the proposed maximum proceeds. No fee shall be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note, or other evidence of indebtedness on which a fee has theretofore been paid to the commission.

Today's Decision authorizes Alco to issue an additional $8.0 million of debt and equity. The following table shows the calculation of the fee that Alco is required to pay pursuant to § 1904(b) and § 1904.1:

Computation of Fee	
Fee on First $1 Million	$2,000
Fee on $1.0 Million - $8.0 Million	$7,000
Total Fee	**$9,000**

Alco shall remit the required fee of $9,000 to the Commission's Fiscal Office no later than 20 days from the effective date of today's Decision. The authority granted by today's Decision shall not become effective until Alco has paid the fee.

9. Matters Not Addressed

Today's Decision does not address the following matters: (1) the reasonableness of any expenditures made by Alco with the proceeds of the debt and equity authorized by today's Decision;[12] (2) the ratemaking treatment or rate recovery of the costs associated with Alco's debt and equity; and (3) the reasonableness of the issuance costs, interest rates, dividend payments, and other terms and conditions of the debt and equity issued by Alco. These matters may be addressed in other proceedings, as appropriate, including in the GRC ordered by today's Decision. Like other utilities, Alco is at risk for imprudently incurred costs and capital expenditures.

10. California Environmental Quality Act

A basic purpose of the California Environmental Quality Act (CEQA)[13] is to inform governmental decision-makers and the public about the potential and

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[12] Today's decision authorizes the specific purposes for which Alco may issue the debt and equity authorized herein, but does not address the reasonableness of the actual expenditures for these purposes.

[13] Public Resources Code Section 21000, et seq.

significant environmental effects of proposed activities.[14] To achieve this goal, the Commission is required by CEQA and Rule 2.4 of the Commission's Rules of Practice and Procedure to consider the environmental consequences of projects that are subject to the Commission's discretionary approval. Thus, the Commission must consider whether approval of A.07-10-012 will alter an approved project, result in new projects, or change operations in ways that have an environmental impact.

Alco intends to use the $8 million of financing authorized by today's Decision to repay short-term debt, reimburse treasury funds, and finance future construction of utility plant and facilities. Alco provided few details regarding the timing and extent of these activities. The CEQA guidelines recognize that the timing of an environmental review involves a balancing of competing factors, and that such review should occur as early as feasible to enable environmental considerations to influence project design, yet late enough to provide meaningful information for environmental assessment.[15]

We conclude that it is premature to conduct a CEQA review of future construction of utility plant and facilities that are financed with the debt and equity authorized by today's Decision because there is insufficient data to conduct a meaningful environmental review at this time. Instead, we will order Alco to comply with all applicable environmental laws when planning and implementing future construction of plant and facilities that are financed, in whole or in part, with the debt and equity authorized by today's Decision.

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[14] CEQA Guidelines (Title 14, Division 6, Chapter 3 of the California Code of Regulations), Section 15002.

[15] CEQA Guidelines Section 15004(b).

Today's Decision does not authorize any capital expenditures or construction projects. Construction projects financed by debt and equity issued pursuant to today's Decision should undergo a CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b).

11. Categorization and Need for Hearings

In Resolution ALJ 176-3201, the Commission preliminarily determined that the category for this proceeding is ratemaking, and that a hearing was not necessary. The Scoping Memo affirmed the categorization of this proceeding as ratemaking, but determined that a hearing was needed. Commission Resolution ALJ-218, dated April 24, 2008, approved the changed determination on the need for hearing. As noted earlier in today's Decision, an evidentiary hearing was held on June 3, 2008.

12. Comments on the Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Timely comments were filed Alco and DRA. There were no reply comments. These comments have been reflected, as appropriate, in the final decision adopted by the Commission.

13. Assignment of the Proceeding

John A. Bohn is the assigned Commissioner for A.07-10-012 and Timothy Kenney is the assigned ALJ.

Findings of Fact

1. Alco requests authority under Pub Util. Code § 816 et seq., and 851 to issue $6 million of secured long-term debt, $2 million of preferred stock, and $0.33 million of common equity for the purposes set forth in A.07-10-012. These purposes are listed in Table 1 of today's Decision.

2. Alco has a reasonable need to issue $8 million of debt and equity for the purposes set forth in A.07-10-012.

3. The money, property, and/or labor to be procured by Alco with the proceeds of the debt and equity authorized by today's Decision are reasonably required for the purposes specified in today's Decision, and such purposes are not reasonably chargeable to operating expenses or income.

4. DRA and Alco both project that Alco's cost of capital in 2009 will be less than its authorized rate of return.

5. The $8 million of debt and equity authorized by today's Decision is equal to 140% of Alco's revenues in 2007 and 84% of Alco's rate base in 2007.

6. GO 24-B requires utilities to submit a monthly report to the Commission that contains specified information about their debt and equity.

7. The Commission routinely authorizes utilities to report on a quarterly basis the information required by GO 24-B in order to reduce the utilities' administrative and compliance costs. There is no need at this time to require Alco to report monthly the information required by GO 24-B.

8. Today's Decision does not authorize any new construction or changes in use of existing assets and facilities.

9. The timing and extent of future construction of water utility plant and facilities that will be financed with the debt and equity authorized by today's Decision is uncertain.

10. Today's Decision does not address the following matters: (i) the reasonableness of any expenditures made by Alco with the proceeds of the debt and equity authorized by today's Decision; (ii) the ratemaking treatment or rate recovery of the costs associated with Alco's debt and equity; and (iii) the reasonableness of the issuance costs, interest rates, dividend payments, and other terms and conditions of the debt and equity issued by Alco. These matters may be addressed in other proceedings, as appropriate, including in the GRC ordered by today's Decision. Like other utilities, Alco is at risk for imprudently incurred costs and capital expenditures.

Conclusions of Law

1. A.07-10-012 is subject to Commission approval under § 816 et seq., and § 851. The Commission has broad authority to take such actions with respect to A.07-10-012 as the Commission deems necessary to protect and promote the public interest.

2. It is in the public interest to grant Alco prospective authority under § 816 et seq., to issue up to $5.67 million of long-term debt, $2.0 million of preferred stock, and $0.33 million of common equity. The authorized debt and equity should be used only for purposes identified in the following Order and subject to the conditions set forth in the following Order.

3. It is in the public interest to grant Alco prospective authority under § 851 to issue long-term debt secured by assets that are used and useful in providing public utility service. If a default occurs and title to any of Alco assets is transferred pursuant to secured debt, the assets transferred should remain in public utility service unless and until the Commission authorizes otherwise.

4. Given the magnitude of the debt and equity authorized by today's Decision relative to Alco's revenues and rate base, it is in the public interest to conduct an in-depth review of Alco's operations in order to maintain the confidence of Alco's customers and the general public in Alco's rates and service.

5. Alco should be required to file a formal GRC application by June 1, 2009, with a 2010 test year. Alco should attach to the GRC application a report on its use of the proceeds from the debt and equity authorized by today's Decision. The report should address the matters identified in the body of today's Decision.

6. If Alco is delayed in the issuance of the debt authorized by today's Decision due to turmoil in the financial markets such that Alco cannot provide in its GRC application the information required by the previous Conclusion of Law (COL), then Alco should be allowed to request, pursuant to Rule 16.6, an extension of up to 6 months to file a formal GRC application with a 2010 test year. Any such request should explain why Alco cannot file a GRC application in accordance with the previous COL Any further extension of time should be sought through a petition to modify today's Decision.

7. DRA should audit Alco's use of the proceeds from the debt and equity authorized by today's Decision to verify that such uses comply with today's Decision. The scope of the audit should encompass the matters identified in the body of today's Decision.

8. The debt and equity authorized by today's Decision is exempt from the Commission's Competitive Bidding Rule set forth in Resolution F-616 because the principal amount does not exceed $20 million.

9. Alco should maintain records pursuant to § 824 and GO 24-B that (i) identify the specific debt and equity issued pursuant to today's Decision, and (ii) demonstrate that the proceeds from such debt and equity have been used only for the purposes authorized by today's Decision.

10. Alco should be authorized to report quarterly the information required by GO 24-B regarding debt and equity issued pursuant to today's Decision, except that Alco should report this information monthly if directed to do so by the staff of the Commission's Water Division or successor organization. These reports should show that the proceeds from any debt and equity issued by Alco pursuant to today's Decision have only been used for the purposes authorized by today's Decision.

11. Alco is required by § 1904(b) and § 1904.1 to pay a fee of $9,000 for the debt and equity authorized by today's Decision. The authority granted by today's Decision should not become effective until Alco has paid the fee.

12. Alco should not use the proceeds from the debt and equity authorized by today's Decision to fund capital projects until Alco has obtained (i) any required Commission approvals for the projects, and (ii) any required environmental review under CEQA.

13. There is insufficient information at this time to conduct a meaningful CEQA review of future construction activities that may be financed by the debt and equity authorized by today's Decision.

14. The following Order should be effective immediately so that the authority granted therein may become effective as soon possible.

O R D E R

IT IS ORDERED that:

1. Alisal Water Corporation d/b/a Alco Water Service (Alco) is granted authority under California Public Utilities Code Section 816 et seq., to issue $5.67 million of long-term debt, $2.0 million of preferred stock, and $0.33 million of common equity. The authority granted by this Order is subject to the following conditions:

   a. The debt and equity authorized by this Order may only be used for the purposes listed in Table 1 in the body of today's Decision. Alco shall not use the debt and equity authorized by this Order to finance plant and equipment needed to serve customers in the service territory that is the subject of Investigation 07-06-020 and Resolution W-4630.

   b. Alco may use the debt and equity authorized by this Order to repay treasury funds and short-term debt only to the extent the treasury funds and short-term debt were used to finance the acquisition of utility plant and equipment.

   c. Alco may allocate the proceeds from the debt and equity authorized by this Order among the purposes authorized by this Order as Alco deems necessary.

   d. Alco shall not issue debt or equity to finance an Automatic Meter Reading System (AMR) or AMR meters until after Alco has received Commission authorization to install an AMR system.

   e. Alco's authorized use of proceeds includes $1,118,260 to repay capital leases executed in 2005 and 2006 for water plant. The total amount of debt and equity that Alco is authorized to issue by this Order shall be reduced by an amount equal to the difference between $1,118,260 and the actual lease balances that are paid off.

   f. Alco shall not issue common equity to the extent that doing so results in a transfer of control of Alco.

g. The annual dividend rate on the preferred stock shall not exceed 8.5%. Preferred-stock dividends shall be paid quarterly and shall be non-cumulative. Unpaid dividends during a quarterly period shall be canceled and not carried over into a future quarter.

h. Preferred stock shall not have voting rights in shareholder meetings or any participation rights in revenues or earnings.

i. The preferred stock shall be a permanent part of Alco's capital structure. The owner(s) of the preferred stock shall not have the right to sell the stock back to Alco, and Alco may not redeem the preferred stock without prior Commission authorization. Any redemption shall be at the original cost of the preferred stock.

j. Preferred stock dividends shall be paid only when cash flow from operations as defined by Generally Accepted Accounting Principles exceeds the sum of (1) capital lease payments, plus (2) the dividends on the preferred stock, plus (3) debt principal payments, plus (4) interest payments to the extent interest is not subtracted from cash flow from operations, plus (5) 10% of the sum of the previous four items.

k. The capital, financial, and operating needs of the utility shall have priority over the payment of preferred-stock dividends and the redemption of preferred stock. Alco shall not pay preferred-stock dividends or buy back preferred stock if doing so jeopardizes Alco's ability to pay debt principal and interest, fund utility operations, or provide public utility services.

2. Pursuant to Pub. Util. Code § 851, the long-term debt authorized by this Order may be secured by Alco's assets that are used and useful in the provision of public utility service. If a default occurs and title, control, or ownership of any Alco property, franchise, permit, or right that is necessary or useful in the performance of Alco duties to the public is transferred pursuant to the terms of the secured debt, the thing transferred shall continue to be used to provide public utility service unless and until the Commission authorizes otherwise.

3. Alco shall reduce the ratio of its long-term debt to equity to 5-to-1 by the later of December 31, 2009, or 180 days after Alco issues any of the debt authorized by this Order. Alco shall then reduce its debt-to-equity ratio to 4-to-1 by the end of 2010, and 3-to-1 by December 31, 2011. To achieve these targets, Alco may issue more preferred stock and common equity than authorized by this Order, provided there is a corresponding reduction to the amount of long-term debt issued pursuant to this Order, so that the total amount of debt and equity issued pursuant to this Order does not exceed $8.0 million.

4. Beginning in 2012, Alco shall not exceed a debt-to-equity ratio of 3-to-1 without Commission authorization.

5. If Alco needs to issue more equity than authorized by this Order to achieve the debt-to-equity ratios required by the two previous Ordering Paragraphs, Alco may file an application to request authority for the additional equity.

6. Alco shall maintain records to (i) identify the specific debt and equity issued pursuant to this Order, and (ii) demonstrate that the proceeds from such debt and equity have been used only for the purposes authorized by this Order.

7. Alco shall report on a quarterly basis the information required by General Order 24-B for the debt and equity issued pursuant to this Order, except that Alco shall report monthly if directed to do so by the staff of the Commission's Water Division or successor organization. The quarterly reports shall be submitted no later than 25 days after the close of a calendar quarter. Alco's reports shall also demonstrate that the proceeds from any debt and equity issued pursuant to this Order have been used only for the purposes authorized by this Order.

8. Alco shall pay the fee of $9,000 required by Pub. Util. Code § 1904(b) and § 1904.1 to the Commission's Fiscal Office no later than 20 days from the effective date of this Order. The decision number of this Order shall be written on the face of the check. The authority to issue debt and equity granted by this Order shall not become effective until the fee has been paid.

9. Alco shall file a formal general rate case (GRC) application by June 1, 2009, with a 2010 test year. Alco shall attach to its GRC application a report that (i) shows how much debt and equity it has issued pursuant to this Order; (ii) identifies the specific bank account(s) that Alco has established pursuant to General Order 24-B, Section C, to receive and disburse these funds; (iii) lists the actual expenditures and uses of these funds; and (iv) describes how these expenditures and uses comply with this Order.

10. If Alco is delayed in the issuance of the debt authorized by this Order due to turmoil in the financial markets such that Alco cannot provide in its GRC application the information required by the previous Ordering Paragraph (OP), then Alco may request, pursuant to Rule 16.6, an extension of up to 6 months to file a formal GRC application with a 2010 test year. Any such request shall explain why Alco cannot file a GRC application in accordance with the directions in the previous OP. Any further extension of time should be sought through a petition to modify today's Decision.

11. The Commission's Division of Ratepayer Advocates (DRA) shall conduct an audit to verify that the proceeds of the debt and equity authorized by this Order have been used only for the purposes authorized by this Order. The scope of the audit shall include verification that the treasury funds which are reimbursed, and the short-term debt that is paid off, with the proceeds from the debt and equity authorized by this Order were used to acquire utility plant and equipment in 2005, 2006, and 2007. DRA shall submit an audit report during the course of the GRC at a time to be determined by the scoping memo.

12. Alco shall comply with all applicable environmental laws and regulations when planning and implementing any future construction, upgrades to plant and equipment, or other activities that are financed, in whole or in part, with proceeds from the debt and equity authorized by this Order

13. Application (A.) 07-10-012 is granted to the extent set forth in the previous Ordering Paragraphs.

14. A.07-10-012 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.

APPENDIX A

************ SERVICE LIST ***********
Last Updated on 28-MAR-2008 by: AJH
A0710012 LIST

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(END OF APPENDIX A)