

April 16, 2009

WATER/RSK/KOK/DLW/RHG**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****DIVISION OF WATER AND AUDITS
UTILITY AUDIT, FINANCE AND
COMPLIANCE BRANCH****RESOLUTION W-4756
APRIL 16, 2009****R E S O L U T I O N**

RESOLUTION W-4756. RESOLUTION GRANTING COLD SPRINGS WATER COMPANY (CSWC) AUTHORITY TO BORROW FROM PORTER/CAL-WESTERN, INC. THE AMOUNT OF \$145,201, FOR SYSTEM IMPROVEMENTS, AND TO INSTITUTE A SURCHARGE TO PAY OFF THE LOAN.

By Advice Letter (AL) No. 50 filed on December 23, 2008, and Supplemental AL No. 50-A filed on March 6, 2009.

SUMMARY

This Resolution grants CSWC the authority requested in AL No. 50, as supplemented by AL No. 50-A.¹

CSWC requests authority, pursuant to §§ 816 and 851 of the Public Utilities Code, to borrow a total of \$145,201 from Porter/Cal-Western, Inc (Lender), for water system improvements, and as required by the Lender, to institute a surcharge to pay off the loan.²

In addition, CSWC proposes to establish a balancing account which would be credited with revenues collected through the proposed surcharge. The balancing account would be charged with payments of interest and principal on the loan.

¹ AL 50-A added two Special Conditions in the surcharge tariff that indicates when the surcharge begins and that the surcharge is subject to the Commission's reimbursement fee, per PU Code § 403. AL 50-A also included a revised Table of Contents page.

² All statutory references are to the Public Utilities Code unless otherwise indicated.

BACKGROUND

CSWC is a Class D water utility subject to the jurisdiction of this Commission. CSWC provides water service to approximately 437 metered and 86 flat-rate customers in Cold Springs and Peter Pam Subdivision and vicinity, located approximately 8 miles east of Long Barn, Tuolumne County.

Pursuant to its Income Statement as of December 31, 2007, CSWC reported that it generated total operating revenues of \$189,918 and net income of \$18,945.

The company's Balance Sheet as of December 31, 2007 is summarized below:

<u>Assets</u>	<u>Amount</u>
Current and Accrued Assets	\$ 86,074
Investments	0
Deferred Charges	0
Net Utility Plant	<u>160,963</u>
 Total Assets and Deferred Charges	 <u>\$247,037</u>
 <u>Liabilities & Capital</u>	
Current and Accrued Liabilities	\$ 3,303
Long-Term Debt	0
Deferred Credits	0
Advances for Construction	22,501
Net Contributions in Aid of Constructions	20,369
Corporate Capital and Retained Earnings	<u>200,864</u>
 Total Liabilities & Capital	 <u>\$247,037</u>

NOTICE AND PROTESTS

Notice of AL No. 50 and AL No. 50-A appeared on the Commission's Daily Calendar of December 29, 2008 and March 11, 2009, respectively.

By bill insert, dated December 3, 2008, CSWC notified its customers of the proposed loan and the surcharge to repay the loan. On February 27, 2009, a public notice containing the proposed debt, the surcharge, and the proposed rate change expressed in both dollar and percentage terms was published in the Union Democrat, a local newspaper circulated in the County of Tuolumne.

No customer concerns or protests have been received.

DISCUSSION

CSWC proposes to replace an existing 100,000 gallon tank that is approximately seventy-five years old and leaking, with a new 101,249 gallon steel welded potable water tank. According to CSWC, this project is vital to the operation of the utility in order to continue to provide treated drinking water. In numerous occasions, and recently as September 2008, CSWC repaired the old tank, but the tank remained in very poor condition and its stability remains uncertain.

In 1992, CSWC undertook complete sand blasting and recoating of the existing tank. In 2008, a sizable crack in the steel plate re-appeared in the same general area of the repairs done in 1992, caused by metal fatigue. At that time, a steel bolted fish plate was installed to repair the split, in lieu of welding, in order to prevent overheating of the steel.

Concerned about the tank's stability, CSWC engaged the Lender, a California corporation and a general contractor, to conduct a comprehensive inspection of the existing tank.³ In a Comprehensive Inspection Report/Recommendations & Cost, dated October 28, 2008, the Lender indicated that it cannot be stated with certainty if other skin panels of the existing tank will fatigue over time. The tank has been in service for many years. At the time it was installed it met the requirements of the Department of Public Health (formerly Department of Health Services) and the American Water Works Association (AWWA). However, the overall parameters for Potable Water Storage Reservoirs have been

³ The officers of Porter/Cal-Western, Inc. does not in any way, shape or form have any connection or affiliation with CSWC, the owners or connected owners, shareholders, and officers.

elevated significantly in the past 10 years. In addition to upgrades, the service life of the tank must be considered.

The Lender stated that in addition to the money that would be needed for repairs, the fish plate repairs cannot be considered as all inclusive on the life of the tank, and a steel welded tank replacement is recommended in comparison to a bolted tank because it is superior, stronger, and more sanitary, and far less likely to form leaks around gaskets. The project will be designed by a state licensed Registered Civil Engineer, who will also be the resident inspector, from dirt work to final coating and disinfection according to AWWA specifications and the latest Seismic Codes. The Lender also offered CSWC funding for the entire project.

A. Description of Financing

Pursuant to a Loan Confirmation Letter attached to the filing and an Addendum to the Loan Confirmation Letter dated February 19, 2009, the Lender proposes to do the construction and fund the \$145,201, through a loan at a fixed interest rate of 3.979%, for a term of 84 months. The first payment will start on the first day of the month following the signing of the loan agreement, with a monthly payment of \$1,980.25. As a condition of the loan offering, the Lender requires a dedicated source of revenue for repayment of the principal amount of the loan plus interest.

Accordingly, CSWC proposes to institute a surcharge to satisfy the requirements of the Lender and establish a balancing account which would be credited with revenues collected through the surcharge. The balancing account would be charged with payments of interest and principal on the loan.

B. Cost Estimates

The cost estimates for the proposed steel welded potable water tank follows:

Plans and engineering for tank and foundation	\$ 4,300
Heavy metal tests for coating (dismantled tank)	500
Dismantle and dispose of old tank	8,000
Site preparation and compaction, trenching	4,000
Form and pour re-enforced concrete Z-3 foundation	21,500
New steel welded tank to American Water Works Association and AWS D-100 ⁴	96,176
Storage and transport from the Sonora yard	1,200
Certified/disinfection and bolt up with gaskets and kits	1,300
Final leak inspection and liquid leveler adjustments	500
Contractor/builder overhead costs, including insurance	<u>7,500</u>
Total	<u>\$144,976</u>

The amount to be financed of \$145,201 consists of the construction costs of \$144,976 and the loan set up fees of \$225.

C. Cash Requirements Forecast

CSWC requires the total amount of \$145,201 to finance capital improvements. The requested authority in this filing would help meet CSWC's funding requirements for a new tank.

⁴ AWS-100 stands for the American Welding Society standards for Certified Welding Inspection codes. These codes govern the welding on any infrastructure made of steel, stainless steel, aluminum, magnesium, etc. and are always subject to field inspection by a certified welding inspector who then presents his findings to the Universal Building Codes Inspector and project engineer for their approval prior to final inspection and putting into service any infrastructure.

D. Capital Ratios

CSWC's capital ratios are shown below as recorded and adjusted to give pro forma effect to the (a) issuance of \$145,201 debt; and (b) decrease in retained earnings due to a projected net loss of approximately \$13,374 (based on estimated 2008 income statement attached to the filing):

	2007				
	<u>Recorded</u>		<u>Adjustments</u>	<u>Proforma</u>	
Long-term debt	\$ 0	-	\$145,201	\$145,201	43.22%
Short-term debt	<u>3,303</u>	<u>1.62%</u>	<u>-</u>	<u>3,303</u>	<u>0.98%</u>
Subtotal	\$ 3,303	1.62%	\$145,201	\$148,504	44.20%
Common Equity	75,000	36.73%	-	75,000	22.32%
Paid In Capital	118,001	57.80%	-	118,001	35.12%
Retained Earnings	<u>7,863</u>	<u>3.85%</u>	<u>(13,374)</u>	<u>(5,511)</u>	<u>(1.64%)</u>
Total Capitalization	<u>\$204,167</u>	<u>100.00%</u>	<u>\$131,827</u>	<u>\$335,994</u>	<u>100.00%</u>

The table above, shown for illustrative purposes, indicates that the estimated change in the recorded capital structure, given the proposed issuance of the loan is material. However, capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not make a finding in this Resolution on the reasonableness of the projected capital ratios for ratemaking purposes.

E. Loan Approval

As a public utility, CSWC has the responsibility to maintain its quality of service and provide necessary improvement to its present water system. CSWC's proposed financing transaction is intended to enable CSWC to maintain and continue providing treated drinking water to its customers, and therefore, is in the public interest.

Upon order of the Commission and for proper cause, § 818 allows the use of proceeds from the issue of debt security for purposes reasonably required in the operation of a utility.

This is a unsecured loan and Section 851 that requires Commission authorization before a utility may “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...” does not apply.

We will authorize CSWC to borrow up to \$145,201 and to execute a loan agreement on terms and conditions contemplated herein.

F. Proposed Surcharge

CSWC’s present rate schedules for general metered service and flat rate service was authorized in Advice Letter No. 49, which granted a 4.1% CPI-U increase 2007, effective March 4, 2008.

As stated earlier, CSWC will need \$1,980.25 monthly, or \$23,763 per year, to make principal and interest payments throughout the 7-year loan term. CSWC estimates the surcharge for each customer to be \$3.79 per month.⁵

The current monthly bill for a 5/8 x 3/4-inch metered customer using approximately 300 cubic feet of water (at a quantity rate of \$1.69 per 100 cu. ft.) would increase from \$32.02 to \$35.81, or 11.83%, for seven years. The monthly bill for flat rate service would increase approximately from \$32.04 to \$35.83, or 11.82%.

We are aware that CSWC will not be able to obtain the loan until it demonstrates that it has the source of funds to be used for repayment of the loan, and that such dedicated funds are documented in an order or resolution. To the extent that the source of funds requirement remains a condition in this filing, CSWC’s financing request should be granted with a surcharge authorization.

The ratepayers ultimately pay for all water system requirements and improvements, regardless of the manner in which they are financed. Additions to utility plant under the traditional ratemaking procedure are included in rate base, irrespective of whether the plant additions are funded by equity or long-term debt. If the utility owners invested their

⁵ All current services are provided thru 5/8 x 3/4-inch meters.

own funds to pay for the water system improvements, they would be entitled to similar earnings on such funds.

The surcharge method of recovery ensures that the loan will be repaid without financial stress to the water utility. The surcharge serves only to repay the loan and will not generate any profit to the utility owners. Capital improvements financed through the surcharge are excluded from ratebase.

Therefore, it is reasonable to authorize CSWC to impose a surcharge on its customers, as set forth herein.

The following conditions apply:

1. The loan repayment surcharge shall be separately identified on customers' bills.
2. CSWC shall use a balancing account to be credited with revenues collected through the surcharge and to be charged with payments of principal and interest on the loan.
3. CSWC shall deposit all surcharge revenues under a separate bank account and deposits shall be made within 30 days after the surcharges are collected from customers.
4. The surcharge rates to repay the loan shall last for approximately 84 months, until the loan is fully paid.
5. Any surplus accrued in the bank account shall be refunded or applied on behalf of the customers when ordered by the Commission.
6. Changes in future surcharge rates shall be accomplished by normal advice letter procedure subject to review and approval.

7. The cost of the capital improvements financed through the surcharge shall be excluded from ratebase for ratemaking purposes.

G. 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).

The fee for this financing authority as set forth by § 1904(b) is \$290.⁶

COMMENTS

Section 311(g) (1) generally requires that draft resolutions be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

CSWC, the only party in this filing, has informed the Division of Water and Audits (DWA) that it has no objection to the conditions added to the relief requested in A.L. 50, as supplemented by AL No. 50-A, and that it is waiving its right to the 30-day public review and comment period. These added conditions are to: (1) separately identify the loan repayment surcharge in its customer billing; (2) open a separate bank account to hold surcharge collections and loan payments; (3) deposit surcharge collected within 30 days of receipt to bank account; and (4) exclude from ratebase, the construction costs financed through the surcharge.

Accordingly, pursuant to § 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. CSWC, a California corporation, is a Class D water utility subject to the jurisdiction of this Commission.
2. The proposed borrowing is for proper purposes.
3. CSWC's system improvements are needed to provide quality and reliable water supply and to preserve and lengthen the useful life of CSCW's water system.

⁶ The amount subject to the fee is \$145,201. The fee is determined as follows: $(\$2 \times (\$145,201/1000)) = \$290$.

4. The Lender requires a dedicated source of revenue for repayment of the principal amount of the loan plus interest.
5. With a surcharge type of recovery, the utility or its owners do not personally benefit from the loan.
6. The surcharge will generate approximately \$1,980.25 monthly.
7. The construction cost financed by the surcharge loan is not to be included in ratebase.
8. The reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in cost of capital or general rate case proceedings.
9. CSWC should pay the fee determined in accordance with § 1904(b).
10. There is no known opposition to AL No. 50, as supplemented by AL No. 50-A.

THEREFORE, IT IS ORDERED that:

1. Cold Springs Water Company is authorized, pursuant to § 816 et seq. of the Public Utilities Code, to borrow \$145,201, from Porter/Cal-Western, Inc. for the purposes described in the body of this Resolution.
2. Cold Springs Water Company's Advice Letter No. 50, as supplemented by Advice Letter No. 50-A, is approved.
3. The authority granted herein shall be subject to condition numbers 1 through 7, enumerated on page 8, of this Resolution.
4. The surcharge to repay the loan shall last for seven years, or until further order of the Commission.
8. Cold Springs Water Company shall inform the Director of the Division of Water and Audits when construction has been completed.

9. Cold Springs Water Company shall file with the Director of the Division of Water and Audits a copy of the loan agreement within 15 days of execution.

10. The authority granted by this Resolution shall become effective when Cold Springs Water Company pays \$290, the fee set forth by Public Utilities Code § 1904(b).

11. This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 16, 2009. The following Commissioners approved it.

Paul Clanon
Executive Director