

**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-4826  
FEBRUARY 25, 2010**

**R E S O L U T I O N**

**RESOLUTION W- 4826. RESOLUTION GRANTING THE SEA RANCH WATER COMPANY, INCORPORATED AUTHORITY TO ISSUE UP TO \$9,000,000 OF DEBT SECURITIES AND TO ENCUMBER ITS ASSETS IN CONNECTION WITH THE DEBT.**

**By Advice Letter No. 77 filed on September 2, 2009.**

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**SUMMARY**

This Resolution grants The Sea Ranch Water Company, Inc. (SRWC) the authority requested in its Advice Letter (AL) 77.

SRWC requests authority, pursuant to §§ 816 through 851 of the Public Utilities Code,<sup>1</sup> to:

1. Issue and sell debt securities not exceeding \$9,000,000; said securities consisting of any or a combination of (a) bonds, (b) conventional loans from financial institutions, or (c) loans from The Sea Ranch Association (SRA), SRWC's parent company;
2. Execute mortgage notes and security instruments in connection with the issuance and sale of debt securities;
3. Be exempt from the Commission's competitive bidding rule; and
4. Use the proceeds of the debt to finance capital improvements for years 2010 through 2014 and to pay the costs associated with the issuance of this debt.

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<sup>1</sup> All statutory references are to the Public Utilities Code unless otherwise indicated.

## **BACKGROUND**

SRWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission. SRWC provides service to 1,800 metered customers located at Sea Ranch, which is halfway between Point Reyes and Fort Bragg, bisected by State Highway 1, and approximately 7 miles southeast of Gualala, Sonoma County.

SRWC's water system consists of wells, pumps, storage tanks, a reservoir, distribution mains, services, meters, fire hydrants, water treatment equipments, etc. Distribution mains are steel, plastic or transite ranging in size from 2" to 14". There are two wells that are capable of producing 500 to 550 gallons per minute, approximately 100 feet deep and with 60 hp motors. The water is treated with chlorine gas. SRWC also owns a 90-million-gallon reservoir, which was built in 1997, that holds approximately enough water for one year of use. The reservoir was built specifically to meet the storage needs for the summer months because environmental regulations require SRWC not to pump water from its wells when the river they are adjacent to drops below a certain level. The reservoir water flows to the water treatment plant before entering the distribution system.

SRWC indicates its water system was principally constructed from the mid-1960s to the mid-1970s. Most of its components and facilities are now 30 to 40 years old. The water system includes about 46 miles of water mains, seven storage tanks and eight pumping systems.

According to SRWC, when the SRA acquired the utility in 1997, it knew that significant defects existed within the system. Some of the defects SRWC knew about included cracking polybutylene pipes in the north end. Other defects were not identified until later such as corroding copper pipes with iron saddles in the meadows. Since the date of purchase, SRWC's management notes that it has worked steadily toward a complete understanding of the infrastructure issues facing the utility and determined to form a plan to replace deteriorating infrastructure that will ensure a sturdy and reliable source of water at build-out and beyond.<sup>2</sup>

SRWC recognizes that its water treatment plant was not designed to process water quickly enough from the reservoir to serve high need periods due to the inadequate backwashing and decant systems. Also, the distribution system at the south end of the service area does not produce sufficient gallons per second to satisfy County firefighting requirements.

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<sup>2</sup> Build-out refers to when the current estimate of 2,288 lots laid out in the service area will have houses on them. There are 488 vacant lots that do not currently have service.

### **A. California Public Health Department Findings**

On August 26, 2005 and January 24, 2008, the California Department of Public Health (CDPH) issued findings concerning SRWC's water system. In these letters, CDPH indicated that SRWC needs to address the following improvements in order to be in compliance with the California Health and Safety Code (CHSC) and the California Code of Regulations (CCR):<sup>3</sup>

1. Water Supply and Storage – Investigate increasing either the storage or source capacity in Zones 2, 4 and 5 in order to meet fire flow requirements and investigate the development of additional source capacity for use during the summer months when the treatment plant is the sole source of supply.
2. Treatment Plant Operation – Investigate purchasing an emergency generator for the treatment plant.

### **B. System Evaluation**

SRWC states that it needed to conduct a comprehensive analysis of all current and identifiable future issues with its system so that its capital improvement efforts would be as effective and cost-efficient as possible. On November 19, 2005, SRWC's Board of Directors approved that a full hydraulic model be completed for its system. SRWC choose the firm of Brown & Caldwell, an engineering outfit from Walnut Creek, to do the work and the hydraulic modeling was conducted during 2006 and 2007. The final draft report from Brown & Caldwell was accepted by SRWC's Board of Directors in November 2007.

Brown and Caldwell recommended, among other things, that SRWC implement the improvements set forth below in Table 1. According to SRWC, the proposed water plant improvements are partly to meet CDPH's requirements and partly to bring the entire water system up to standards for the final build-out of the service area and its operation into the future. At this time, the system is 50 years old and SRWC indicates that it is in need of major replacement and repair and that almost no redundancy exists. SRWC points out that the water plant was not engineered to sustain volume demands at build-out and several components are already undersized, obsolete or failing.

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<sup>3</sup> In addition to the listed plant improvements SRWC needs to complete, CDPH required SRWC to make various other improvements in its operations, system and water quality monitoring. SRWC indicates that it is currently in compliance with these other requirements.

**Table 1**  
**Capital Improvement Recommendations**

1. Upgrade existing wells and variable speed pumps to more efficiently pump water in compliance with diversion limitations.
2. Upgrade electrical systems at the raw water chlorination station to ensure compliance with all codes and add caustic soda addition facility with pH control.
3. Install bypass connections and purchase bypass hoses and handling equipment for the fault rupture zone. Clear a path for laying the bypass hose and conduct periodic practice drills on bypass installation.
4. Make minor improvements at the treatment plant to ensure its reliable operation, especially standby power. Monitor state and federal drinking water regulation and implement improvements at the treatment plant if necessary.
5. Make improvements to Zone 1 including the following:
  - a. Upgrade Tank 1 with flexible connections for the inlet and outlet pipelines, bypass piping, and check valve and vacuum release on the intake pipeline. Also provide storage in Tank 8 to offset Tank 1 storage for Zone 1.
  - b. Add a new parallel water main to deliver higher fire flow to The Lodge at Sea Ranch.
  - c. As funding permits, add parallel north/south Zone 1 water mains for redundancy during maintenance or for repairs after a major seismic event.
  - d. Add pressure relief stations at four key locations.
6. Make improvements to Zone 2 including the following:
  - a. Replace Tanks 3 and 5 with Tank 8 adjacent to Tank 4. Construct Tank 8 with a higher overflow than Tank 4 to improve service pressure for higher elevation lots.
  - b. Upgrade the pumps at Pump Station 1 and add flexibility to pump connections. Add piping around Tank 1 to allow Pump Station 1 to operate when Tank 1 is out of service.
  - c. Construct new and replacement water mains to deliver fire flows.
  - d. Replace Pump Station 2 with a pressure reducing station.

7. Make improvements to Zone 3 including the following:
  - a. Replace Tank 4 with a larger tank – Tank 8 – with proper seismic provisions.
  - b. Demolish and remove the existing tank.
  
8. Make improvements to Zone 4 including the following:
  - a. Replace the existing hydropneumatic system.
  - b. Add propane-fueled standby power.
  - c. Construct a building to house the pumping system, standby generator, and ancillary equipment.
  
9. Make improvements to Zone 5 including the following:
  - a. Demolish and remove the existing hydropneumatic system after Tank 8 is constructed and new Zone 2 water mains are constructed.
  
10. Make improvements to Zone 6 including the following:
  - a. Replace Tank 6 with a larger tank with proper seismic provisions and a higher overflow elevation.
  - b. Demolish and remove the existing tank.
  - c. Upgrade the pumps in Pump Station 4 if needed to accommodate a higher tank overflow.
  - d. Add flexibility to the pump suction and discharge pipes.
  
11. Replace iron tapping saddles in the distribution system to prevent future leaks from corrosion damage.
  
12. Add a system-wide SCADA system to improve operability and reliability.

Since the Brown & Caldwell report was issued, SRWC has been working on an implementation plan to move forward with its capital improvement plan.

**C. Construction Budget**

SRWC's projected construction budgets for 2010 through 2014, as shown in Schedule B to the filing, are as follows:

**Table 2  
 Construction Budget for Years 2010 through 2014**

<u>Item</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Upgrades "Hot Spot" Building	\$25,000	\$90,000	\$0	\$0	\$0	\$115,000
Reservoir Bypass at Water Treatment	40,000	0	0	0	0	40,000
Minor Water Treatment Plant Improvements (Standby Power, Backwash Tank, Solids Facilities)	65,000	230,000	0	0	0	295,000
Zone 4 Hydro Pneumatic Replacement	0	75,000	0	0	0	75,000
Tank 1 Area Upgrades	60,000	0	60,000	60,000	0	180,000
Construct 4 PRV Stations	0	0	120,000	120,000	0	240,000
Construct Tank No. 8 at 0.9 mg*	0	45,000	15,000	1,143,000	0	1,203,000
Construct Zone 2 Water Mains - 8,800 Feet of 12" Main*	0	200,000	1,447,000	1,248,000	0	2,895,000
Construct Zone 2 Water Mains - 2,200 Feet of 12" Main*	0	75,000	362,000	287,000	0	724,000
Construct PS 2 PRV and 2,000 Feet of 6" Main*	0	0	90,000	412,000	0	502,000
Installation of SCADA Network	0	125,000	0	0	0	125,000
SCADA Network-Valve Vaults	0	0	10,000	120,000	0	130,000
Upgrade Pump Station No. 1	0	0	0	40,000	0	40,000
Replace Water Meters for Electronic Meter System	117,000	134,000	0	0	0	251,000
Fault Rupture Zone Bypass	0	0	175,000	0	0	175,000
Pressure Relief Stations	0	0	0	0	100,000	100,000
750 Feet of 12" Water Main to Verdant View	0	0	0	0	620,000	620,000
Upgrade Capacity for Tank No. 8	0	0	0	0	190,000	190,000
Pumping Equipment, Meters	50,000	50,000	50,000	50,000	50,000	250,000
Subtotal	\$357,000	\$1,024,000	\$2,329,000	\$3,480,000	\$960,000	\$8,150,000
Bond reserve fund/contingency	23,400	73,800	173,000	260,300	69,500	600,000
Estimated cost of issuance	19,500	61,600	144,300	217,100	57,500	500,000
Total	\$399,900	\$1,159,400	\$2,646,300	\$3,957,400	\$1,087,000	\$9,250,000

\*According to SRWC, these items totaling \$5,324,000, are mandated by CDPH and would address the requirement that pressure at the south end of the service area be increased to meet standard fire flow requirements.

**D. Cash Requirements Forecast**

SRWC's estimate of cash requirements for 2010 through 2014 is summarized as follows:

**Table 3  
 Cash Requirements Forecast for Years 2010 through 2014**

Components	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Funds for Construction	\$357,000	\$1,024,000	\$2,329,000	\$3,480,000	\$960,000	\$8,150,000
Bonds, Notes Retirement	29,647	33,176	79,931	170,334	188,278	501,366
Contingency Costs	23,400	73,800	173,000	260,300	69,500	600,000
Issuance Costs	19,500	61,600	144,300	217,100	57,500	500,000
Total Cash Requirements	<u>429,547</u>	<u>1,192,576</u>	<u>2,726,231</u>	<u>4,127,734</u>	<u>1,275,278</u>	<u>9,751,366</u>
Less: Estimated Cash Provided from Internal Sources	<u>191,122</u>	<u>151,836</u>	<u>89,139</u>	<u>60,907</u>	<u>214,566</u>	<u>707,570</u>
Funds Required from Outside Sources	<u>\$238,425</u>	<u>\$1,040,740</u>	<u>\$2,637,092</u>	<u>\$4,066,827</u>	<u>\$1,060,712</u>	<u>\$9,043,796</u>

SRWC states that development in the service area is currently down, so that facility fees have not been included as a source of funds. However, SRWC believes that as development builds up and as facility fees are collected from new customers or developers requesting service, it will help offset the cost of plant improvements over time.<sup>4</sup>

**E. Financing Request**

SRWC seeks authorization to obtain debt capital in an aggregate principal amount not to exceed \$9,000,000, through the issuance and sale of bonds or by entering into conventional loans from financial institutions or loans from SRA. The proposed debt may be secured by the assets of the utility. In addition, SRWC requests authority to execute mortgage notes and security instruments in connection with the issuance and sale of debt and that the requested debt authority be exempt from the Commission's Competitive Bidding Rule. SRWC intends to apply the net proceeds from the proposed debt to finance its Water plant to be built from years 2010 through 2014, as shown in Table 1, and to pay the costs associated with the issuance of this debt.

<sup>4</sup> Facilities fees are charged for new connections for the purpose of generating funds to build new plant or to replace deteriorated plant. The facilities fees are collected from each customer requesting a new or upgraded service connection. Funds collected are placed in interest bearing accounts and will be used only to build or replace plant. As funds are used, the expenditures are recorded as contributed plant. Schedule No. F of SRWC's tariffs provides for the collection of facilities fees, by meter size, to customers applying for service on premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

On August 19, 2009, SRWC states that it received a private placement proposition from Wulff, Hansen & Co., Investment Bankers (Investment Banker) for a new debt offering through the issuance of bonds. The Investment Banker indicates that:

1. The bonds will be sold to accredited investors, such as institutional buyers and high net worth individuals.
2. The anticipated term of each bond issuance will not exceed twenty years and the interest rate will be determined by market conditions, as of the actual date of issuance.<sup>5</sup>
3. Amortization payments will be twice a year for both principal and interest.
4. The estimated cost of issuance for this private placement is \$500,000, which includes private placement fees, trustee fees and various legal, financial and documentation fees.

SRWC is also considering conventional loans from financial institutions or loans from its parent company. However, SRWC points out that it is aware that due to the uncertainties in the financial market, banks prefer business loans that are collateralized with real estate properties, liquid assets, or secured with personal assets of the owners, and the term of the loans ranges from 10 years or less.

SRWC plans to execute and issue promissory notes or other agreements and, as may be required by lender, encumber utility assets in connection with the proposed debt.

It is SRWC's intention to use the proposed debt to finance its construction program over a period of five years. SRWC expects that the debt issue will be incurred in three phases, based on the priority of the capital projects to be built. Phase 1 will require approximately \$1.5 million; Phase 2 approximately \$2.6 million; and Phase 3 approximately \$4.9 million. Phase 1 construction is estimated to be completed in 2011; Phase 2 is estimated to be completed in 2013; and Phase 3 to be completed in 2014.

According to SRWC, the timing of the projects for the respective phases and the estimated dollar amounts may actually change at the discretion of SRWC or due to market conditions.

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<sup>5</sup>According to the Investment Banker, the estimated 10% interest rate is based on today's market rates for a less than investment grade utility and a small size offering (less than \$20 million). The Investment Banker will set the actual interest rate based on market rates at the time of the offering.

SRWC states that it has not, at the present time, applied for financing from financial institutions or entered into any agreement for the issuance and sale of bonds.

## F. Capital Structure

SRWC's capital ratios as of December 31, 2008, are presented below as recorded and adjusted to give pro forma effect to SRWC's proposed transactions:

**Table 4**  
**Capital Structure**

	<u>Recorded</u>		<u>Adjustments</u>	<u>Proforma 2014</u>	
Long-term debt	\$ 101,848	8.61%	\$8,494,134 <sup>(A)</sup>	\$ 8,600,482	80.97%
Common Stock	145,900	12.33%	-	145,900	1.37%
Paid In Capital	339,365	28.68%	-	339,365	3.19%
Retained Earnings	<u>596,235</u>	<u>50.38%</u>	<u>940,370<sup>(B)</sup></u>	<u>1,536,605</u>	<u>14.47%</u>
Total Capitalization	<u>\$1,183,348</u>	<u>100.00%</u>	<u>\$9,434,504</u>	<u>\$10,622,352</u>	<u>100.00%</u>

(A) Issuance of \$9,000,000 requested in this filing and estimated repayment of \$501,366 in principal on this long-term debt by 2014.

(B) Projected net earnings through 2014.<sup>6</sup>

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<sup>6</sup> SRWC took into consideration the general rate increase approved by Res. W-4798, rate base offset for years 2010 and 2011, and a return on investment of 12.5% for 2012 to 2014, in addition to depreciation and property taxes.

## G. Financial Information

In its Income Statement for the year ending December 31, 2008, SRWC reported that it generated total operating revenues of \$868,229 and a net income of \$41,816. SRWC's Balance Sheet, as of December 31, 2008, as reported, is summarized below:

**Table 5**  
**Balance Sheet as of December 31, 2008**

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$5,957,969
Investments	-
Current & Accrued Assets	374,407
Deferred Charges	<u>269,124</u>
Total Assets and Deferred Charges	<u>\$6,601,500</u>
<u>Liabilities &amp; Equity</u>	
Common Stock	\$ 145,900
Other Paid-in Capital	339,365
Retained Earnings	596,235
Advances from Associated Companies	101,848
Current & Accrued Liabilities	95,608
Net Contributions in Aid of Construction	<u>5,322,544</u>
Total Liabilities & Equity	<u>\$6,601,500</u>

On October 29, 2009, in Resolution (Res.) W-4798, the Commission granted SRWC a general rate increase to produce a total operating revenue of \$1,342,998. Res. W-4798 also authorized an increase in facilities fee charges ranging from \$3,425 for new service with a 5/8-inch meter to \$85,625 for new service with a 4-inch meter.

### **NOTICE AND PROTESTS**

AL 77 was served on SRWC's adjacent utilities pursuant to GO 96-B, Water Industry Rule 4.1.<sup>7</sup> Notice of AL 77 was made by publication in the Commission's Daily Calendar of September 4, 2009. No protests have been received.

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<sup>7</sup> No customers, developers or other interested parties have requested to be served with SRWC's advice letters.

## **DISCUSSION**

As a public utility, SRWC has the responsibility to maintain its quality of service and provide necessary improvement to its present water system.

Approximately 58% of SRWC's construction budget will address deficiencies identified by CDPH. The remainder are items identified for replacement or upgrade by the hydraulic modeling study. The filing specifies that securing the financing authority now will put SRWC in a better position to undertake plant improvements without delay when construction plans are finalized.

SRWC's projected cash requirements indicate that internally generated funds will provide approximately \$707,570 or 7.26% of its cash requirements of \$9,751,366 for years 2010 through 2014. The requested \$9,000,000 debt issue, the subject of this filing, appears necessary to help SRWC meet the majority of its total projected \$9,043,796 external funds requirements.

As shown in Tables 4 and 5, the construction of the planned improvements and the issuance of the proposed debt will significantly increase SRWC's assets and capitalization. The estimated change in the recorded capital structure, given the proposed issuance of debt, is material. However, capital structures are normally subject to review in general rate cases or other proceedings. We will not make a finding in this Resolution on the reasonableness of the projected capital ratios for ratemaking purposes.

In addition, we will not address the reasonableness of the cost of money resulting from the issuance of securities or indebtedness. Such reasonableness is subject to review in subsequent ratemaking proceedings and may result in a disallowance, if determined imprudent.

Public Utilities Code § 817 provides that a public utility may issue stocks and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for certain purposes, including "the construction, completion, extension, or improvement of its facilities" and the improvement or maintenance of its service. SRWC's proposed system improvements therefore fall within the scope of § 817. However, we will not make a finding in this Resolution on the reasonableness of SRWC's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases.

Public Utilities Code § 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, 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 818 requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with the proceeds of the debt authorized is reasonably required for the purposes specified in the order and, unless expressly permitted in an order authorizing debt, that those purposes are not, in whole or in part, reasonably chargeable to expenses or to income.

Public Utilities Code § 851 requires Commission authorization before a utility may “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...” Public Utilities Code § 851 permits the encumbrance of utility assets when such encumbrance serves to secure authorized debt and the Commission frequently authorizes such encumbrance where, as here, it is not adverse to the public interest.

As set forth above, SRWC’s issuance of notes or other evidences of indebtedness would be for the purpose of constructing and improving its facilities and improving and maintaining its service, which falls within the scope of purposes in § 817. Moreover, SRWC’s proposed borrowing and the money, property, or labor to be procured or paid for with the proceeds of the debt authorized by this Resolution is reasonably required for the purposes specified in Table 1 of this Resolution, which purposes are not, in whole or in part, reasonably chargeable to expenses or to income. SRWC’s encumbrance of utility assets in connection with this debt is not adverse to the public interest.

Therefore, we will authorize SRWC to obtain debt capital in an aggregate principal amount not to exceed \$9,000,000 and to encumber its assets in connection with the debt.

Consistent with § 824, SRWC should maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt was only used for the purposes authorized herein.

SRWC should keep and maintain copies of the debt agreements and within thirty days from request provide copies to the Division of Water and Audits’ (DWA) Utility Audit, Finance and Compliance Branch (UAFCB).

### **COMPETITIVE BIDDING RULE**

Under the provisions of Resolution (Res.) No. F-616, SRWC’s proposed issuance of debt is exempt from the Commission’s Competitive Bidding Rule because the principal amount does not exceed \$20,000,000.

## **REPORTING REQUIREMENT**

General Order (GO) 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and equity securities issued by the utility during the prior month; (ii) the total amount of debt and equity securities 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 securities during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and equity securities.

On or before the 25<sup>th</sup> day of each month, SRWC should file with the DWA's UAFCB the reports required by GO 24-B.

## **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 required by § 1904(b) is \$10,000.<sup>8</sup>

## **COMMENTS**

This is an uncontested matter in which the Resolution grants the relief requested. Accordingly, pursuant to 311(g) (2), the otherwise applicable 30-day period for public review and comment is waived.

## **FINDINGS**

1. SRWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission.
2. The engineering firm of Brown & Caldwell conducted the hydraulic modeling for SRWC's system and recommended the improvements listed in Table 1.
3. SRWC's water system is 50 years old and requires major replacement and repair. The proposed water plant improvements listed in the Brown & Caldwell report (and Table 1 of this Resolution) are needed to meet CDPH's requirements and bring the entire water system up to standard, including for final build-out of the service area.

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<sup>8</sup> The fee is assessed on \$9,000,000 of authorized borrowing as follows: (\$2 times (\$1,000,000/\$1,000) plus (\$1 times (\$8,000,000/\$1,000) equals \$10,000.

4. SRWC is responsible for maintaining its quality of service and providing necessary improvements to its water system.
5. SRWC seeks authorization to obtain debt capital in an aggregate principal amount not to exceed \$9,000,000 through the issuance and sale of bonds or by entering into conventional loans from financial institutions or loans from SRA for the purposes listed in Table 1, pages 4 and 5 of this Resolution. SRWC also seeks authorization for the proposed debt to be secured by the assets of the utility.
6. Approximately 58% of SRWC's construction budget will address deficiencies identified by CDPH. The remainder are items identified for replacement or upgrade by the Brown & Caldwell hydraulic modeling study.
7. The requested financing authority of \$9,000,000 appears necessary to provide the majority of the external funding required to meet SRWC's projected cash requirements through 2014.
8. The proposed borrowing and the money, property, or labor to be procured or paid for with the proceeds of the debt authorized by this Resolution is reasonably required for the purposes specified in Table 1 of this Resolution, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
9. Authorizing SRWC to encumber utility assets in connection with the debt is not adverse to the public interest.
10. Res. No. F-616 specifically exempts debt issues of \$20,000,000 or less from the Competitive Bidding Rule.
11. GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and preferred stock issued by the utility during the prior month; (ii) the total amount of debt and equity securities stock 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 securities during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and equity securities.
12. The Commission has routinely required utilities to maintain records to (i) identify the specific long-term debt issued, and (ii) demonstrate that the proceeds from such debt have been used only for authorized purposes.

13. The Commission has routinely required utilities to keep and maintain copies of the debt agreements and within thirty days from request provide copies to the Commission.

14. Notice of the filing appeared on the Commission's Daily Calendar on September 4, 2009. No protests have been received.

15. The fee for this financing authority as required by § 1904(b) is \$10,000.

### **CONCLUSIONS OF LAW**

1. SRWC's proposed debt transaction and the use of the debt proceeds to construct, extend, or improve SRWC's facilities and improve or maintain its service are consistent with the requirements in Public Utilities Code §§ 817 and 818.

2. This authorization is not a finding of the reasonableness of SRWC's proposed construction plan or expenditures, the resulting plant balances in rate base, the capital structure, or the cost of money, nor does it indicate approval of matters subject to review in general rate case or other proceedings.

3. Public Utilities Code § 851 permits the encumbrance of utility assets when such encumbrance serves to secure authorized debt.

4. SRWC should be authorized to execute loan agreements and encumber its property to secure the debt authorized herein so long as the debt is to be used solely for the purposes specified in Table 1 of this Resolution or for paying the costs of issuance of that debt.

5. SRWC is exempt from the Competitive Bidding Rule because the proposed debt does not exceed \$20,000,000.

6. Pursuant to Public Utilities Code § 818, SRWC should be authorized to issue debt securities as requested in its Advice Letter No. 77.

7. Consistent with § 824, SRWC should maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes authorized herein.

### **THEREFORE, IT IS ORDERED that:**

1. The Sea Ranch Water Company, Inc. is authorized to issue and sell debt securities not exceeding \$9,000,000, said securities shall consist of any or a combination of



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February 25, 2010

Commissioners