

WATER/RSK/KOK/DLW

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
UTILITY AUDIT, FINANCE AND
COMPLIANCE BRANCH**

**RESOLUTION W-4847
OCTOBER 28, 2010**

R E S O L U T I O N

RESOLUTION W-4847. RESOLUTION GRANTING BASS LAKE WATER COMPANY AUTHORITY TO BORROW \$187,000 FROM PLUMAS BANK AND TO ENCUMBER ITS ASSETS IN CONNECTION WITH THE DEBT.

By Advice Letter No. 55-W filed on August 16, 2010.

SUMMARY

This Resolution grants Bass Lake Water Company (BLWC) the authority requested in its Advice Letter (AL) 55-W.

BLWC requests authority, pursuant to §§ 816 through 851 of the Public Utilities Code (Pub. Util. Code),¹ to:

1. Borrow \$187,000 from Plumas Bank;
2. Encumber utility assets in connection with the debt; and
3. Use the proceeds of the debt to finance the replacement of a leaking 30,000 gallon steel storage tank with a new 100,000 gallon tank and the replacement of over 1,000 feet of undersized water line.

BACKGROUND

BLWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission. BLWC provides water service to approximately 951 flat rate and 44 metered customers at Bass Lake, Madera County. BLWC serves an unincorporated community consisting of permanent residential, rental homes, and commercial development in a lake resort setting.

BLWC's water system consists of, among other things, structures, wells, pumping equipments, reservoir tanks, mains, meters and hydrants.

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

A. Financial Information

In its Income Statement for the year ending December 31, 2009, BLWC reported that it generated total operating revenues of \$665,555 and a net loss of \$12,287. BLWC's Balance Sheet, as of December 31, 2009, as reported, is summarized below:²

Table 1
Balance Sheet as of December 31, 2009

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$1,699,626
Investments	-
Current & Accrued Assets	<u>303,340</u>
Total Assets and Deferred Charges	<u>\$2,002,966</u>
<u>Liabilities & Equity</u>	
Common Stock	\$ 49,100
Other Paid-in Capital	1,030,900
Retained Earnings	(571,792)
Long Term Debt	14,103
Advances from Associated Companies	727,603
Current & Accrued Liabilities	28,274
Deferred Credits	722,778
Net Contributions in Aid of Construction	<u>2,000</u>
Total Liabilities & Equity	<u>\$2,002,966</u>

On April 6, 2010, BLWC filed AL No. 54-W for a Consumer Price Index (CPI) increase of \$17,956 or 2.7% of recorded revenues as of December 31, 2009 of \$665,555. AL 54-W became effective May 1, 2010.

On August 27, 2010, BLWC provided staff with the Summary of Earnings that supported its AL No. 54-W request for a CPI increase. With the \$17,956 CPI increase, BLWC projects a net income of \$15,278 for 2010.

B. Current Financing Authority

On October 29, 2009, the Commission issued Resolution (Res.) W-4800 granting BLWC authority to enter into two loan agreements with Plumas Bank, for a total amount of \$588,660. On January 22, 2010, BLWC finalized the loan with Plumas Bank and executed a promissory note with a principal amount of \$244,067, at an interest rate of 7.690% and a maturity date of January 22, 2025. On the same date, BLWC executed

² From Schedule B - Income Statement and Schedule A - Comparative Balance Sheet of BLWC's 2009 Annual Report filed with the Commission.

another promissory note with a principal amount of \$344,593 with Plumas Bank at an interest rate of 7.190% and a maturity date of January 22, 2020.

Subsequently, as authorized in Res. W-4800, BLWC paid \$588,660 to its parent company, The Pines Resorts of California, for funds advanced to BLWC from 2002 to 2008 that BLWC used for capital improvements.³ The capital improvements that BLWC funded by advances, shown as Table 3 of Res. W-4800, are summarized below:

Table 2
Capital Improvements Funded by Advances

<u>Year</u>	<u>Amount</u>
2002 through 2007	\$405,404
2008	<u>287,138</u>
Total	<u>\$692,542</u>

In accordance with the Replacement Line of Credit Agreement between BLWC and The Pines Resorts of California, dated October 29, 2009, the remaining balance of approximately \$188,276, \$692,542 less \$588,660, included in BLWC's Advances from Associated Companies account will be converted and booked by BLWC to paid-in capital by year-end 2010.

C. System Evaluation/Project Justification

BLWC states in its filing that it needs to replace a 30,000 gallon water storage tank known as the Falls Tank. This metal tank is approximately 60 years old and BLWC asserts that it is beyond repair for the several recent leaks it has developed. In addition, it sits on a steel structure platform thirty feet in the air which does not meet current construction standards for earthquake safety. When the tank was originally built, BLWC points out that the high elevation was necessary to provide adequate pressure to this section of its distribution system. BLWC asserts that subsequent system changes have made elevating the tank unnecessary.

BLWC wants to replace the tank at the same location with a ground mounted 100,000 gallon steel tank to maintain present requirements and increase system storage capacity. The new tank on flat land will meet all seismic standards. BLWC has received permission to complete the project from the U.S. Forest Service, who owns the land where the tank is located.⁴

BLWC states that it also serves a neighborhood within its water system with undersized and old distribution lines, and without any fire hydrant coverage. BLWC asserts that

³ \$244,067 + \$344,593 = \$588,660.

⁴ Supported by a letter dated July 24, 2008 from the US Department of Agriculture.

the owners of the lots access their property by a private road, which is badly in need of repair and resurfacing. According to BLWC, the customers will provide the cost for the road work and BLWC will install a new properly sized distribution line, 8 service connections and 3 fire hydrants along the road prior to the repair and re-surfacing project.

D. Construction Budget

BLWC's projected construction budget, shown as an attachment to the filing, follows:

J.B. Travis Construction 4/30/2010 quote for Storage tank, including demolition of existing tank	\$122,966
Realign, grade & compact service road to site	5,000
Contingency	<u>12,300</u>
Sub-total	<u>\$140,266</u>
<u>Road 432 Distribution Line Replacement</u>	
Groeniger & Co. 4/9/2010 quote for 1,060' of new 6" distribution line, 8 service connections, and 3 fire hydrants	\$ 22,369
Sales tax on materials	2,045
45 days installation work by Ralph Gordon Construction @ \$1,000/day	45,000
Base rock, compaction and asphalt patching of trenched areas	3,000
Contingency	<u>7,350</u>
Sub-total	<u>\$ 79,764</u>
Total	<u>\$220,030</u>

E. Cash Requirements Forecast

BLWC 's estimated cash requirements forecast, shown as an attachment to the filing, is summarized as follows:

Table 4
Cash Requirements Forecast

Funds for Construction	\$200,380
Bonds, Notes Retirement	0
Short-Term Debt Repayment	0
Contingency	<u>19,650</u>
Total Cash Requirements	\$220,030
Less: Estimated Cash Provided from Internal Sources	<u>33,030</u>
Funds Required from External Sources	<u>\$187,000</u>

BLWC states that its cash requirements forecast as shown in Table 4 is an estimate and claims that with its year-to-date revenue tracking as planned, it should not have a problem in meeting its cash requirements from internal sources using utility earnings.⁵

F. Financing Request

In this filing, BLWC seeks authorization to enter into a secured loan in the amount of \$187,000 with Plumas Bank, at a fixed interest rate of 7% and a term of 10 years. According to BLWC, the rate will be subject to change until the loan is executed.

BLWC intends to use the net proceeds of the proposed debt to finance the replacement of its leaking 30,000 gallon steel storage tank with a new 100,000 gallon tank to improve system reliability and the replacement of over 1,000 feet of undersized water line that does not have customer fire flow capacity.

BLWC intends to execute and issue a promissory note and security agreement with Plumas Bank.

⁵ In its current filing, BLWC estimates it will generate \$30,023 in cash flow by the end of 2010.

G. Capital Structure

BLWC presents its capital structure as recorded, as of December 31, 2009, and adjusted to give pro forma effect to BLWC’s proposed financing transaction and other events occurring after 2009:

**Table 5
 Capital Structure**

	<u>Recorded</u>		<u>Adjustments</u>		<u>Proforma</u>	
Long-term debt	\$ 14,103	1.12 %	\$ 775,660 ^(A)	\$ 789,763	52.60 %	
Short-term debt	727,603	58.22 %	(727,603) ^(B)	-	0.00 %	
Common Stock	49,100	3.93 %	-	49,100	3.27 %	
Paid In Capital	1,030,900	82.48 %	188,277 ^(C)	1,219,177	81.19 %	
Retained Earnings	<u>(571,793)</u>	<u>(45.75)%</u>	<u>15,278</u> ^(D)	<u>(556,515)</u>	<u>(37.06)%</u>	
Total Capitalization	<u>\$1,249,913</u>	<u>100.00 %</u>	<u>\$ 251,612</u>	<u>\$1,501,525</u>	<u>100.00 %</u>	

- (A) Debt of \$588,660 issued on January 22, 2010, as authorized by Res. W-4800, and \$187,000 loan requested in this filing.
- (B) Payment of \$588,660 to Pines Resorts of California and liquidation of other current liabilities.
- (C) Increase to Paid-in Capital, including the estimated \$103,882 discussed in Res. W-4800.
- (D) Projected net earnings.⁶

NOTICE AND PROTESTS

On August 16, 2010, BLWC served its AL 55-W on its adjacent utilities pursuant to GO 96-B, Water Industry Rule 4.1.⁷ Notice of AL 55-W was made by publication in the Commission’s Daily Calendar of August 23, 2010. No protests have been received.

DISCUSSION

As a public utility, BLWC has the responsibility to maintain its quality of service and provide necessary improvements to its present water system. BLWC’s proposed construction projects will eliminate the tank leaks it is experiencing, will increase its storage capacity and bring its storage tank into compliance with current seismic standards, will replace some old inadequate distribution lines and add eight service connections and fire hydrant coverage to the section of lines it is replacing. In addition,

⁶ Included in AL 55-W is a Summary of Earnings, originally attached to AL # 54-W, that resulted in BLWC’s projected net revenues of \$15,278.

⁷ No customers, developers or other interested parties have requested to be served with BLWC’s advice letters.

allowing BLWC to proceed with these improvements at this time will prevent the disruption of a road repair and resurfacing project being conducted by residents living on the road where the replacement line, connections and fire hydrants are to be located. This will allow BLWC to avoid the cost of cutting into paving and providing resurfacing.

Pub. Util. 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. BLWC’s proposed system improvements fall within the scope of § 817 and would be a proper use of funds under § 817. However, we will not make a finding in this Resolution on the reasonableness of BLWC’s proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases.

BLWC’s projected cash requirements indicate that internally generated funds will provide approximately \$33,030 or 15% of its cash requirements of \$220,030. The requested \$187,000 debt issue, the subject of this filing, appears necessary to help BLWC meet its projected external funds requirements. However, we will not address the cost of money resulting from BLWC’s issuance of securities or indebtedness. Such reasonableness is subject to review in subsequent ratemaking proceedings and may result in a disallowance, if determined imprudent.

As shown in Table 5, the construction of the planned improvements and the issuance of the proposed debt will significantly increase BLWC’s assets and capitalization. The estimated change in the recorded capital structure, given the proposed issuance of debt, is material. However, recorded capital structures may or may not be used for the ratemaking capital structure and 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.

Pub. Util. 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.

As set forth above, BLWC's proposed loan 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, BLWC'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 3 of this Resolution, since these improvements will benefit ratepayers over many years, BLWC's proposed projects are not reasonably chargeable to expenses or income.

Therefore, we will authorize BLWC to obtain debt capital in an aggregate principal amount not to exceed \$187,000 and to encumber its assets in connection with the debt. Our approval does not authorize any capital expenditures or specific construction projects, but rather the creation of a funding mechanism to finance repairs to the existing utility system. BLWC must comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with this filing.

Pub. Util. 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..." Pub. Util. 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.

BLWC's current loan proposal requires that BLWC grant a security interest in its assets to the lender. BLWC may not be able to obtain a loan without providing a security interest. An inability to procure a loan would substantially delay completion of these projects since BLWC does not currently have internal resources to complete the project, at this time. Therefore, we will allow BLWC to encumber its assets in conjunction with obtaining financing for its proposed construction projects.

Consistent with § 824, BLWC 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.

BLWC 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, BLWC'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 25th day of each month, BLWC 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 \$374.⁸

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. BLWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission.
2. BLWC is responsible for maintaining its quality of service and providing necessary improvements to its water system.

⁸ The fee is assessed on \$187,000 of authorized borrowing as follows: \$2 times (\$187,000/\$1,000) equals \$374.

3. BLWC's existing 30,000 gallon water storage tank is approximately 60 years old and is beyond repair. In addition, within BLWC's system are undersized and old distribution lines that do not provide fire hydrant coverage.
4. BLWC's proposed water plant improvements are listed in Table 3 of this Resolution.
5. BLWC seeks authorization to obtain a loan in the amount of \$187,000 from Plumas Bank to be used for these capital improvements. BLWC also seeks authorization for the proposed loan to be secured by the assets of the utility.
6. BLWC's draft loan agreement requires the encumbrance of utility assets.
7. BLWC needs \$187,000 in external funding to meet its projected cash requirements for completing its construction projects.
8. BLWC must comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with this filing.
9. 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 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.
10. 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.
11. The Commission has routinely required utilities to keep and maintain copies of the debt agreements and within thirty days from a request provide copies to the Commission.
12. Res. No. F-616 specifically exempts debt issues of \$20 million or less from the Competitive Bidding Rule.
13. On August 16, 2010, BLWC served AL 55-W on its adjacent utilities pursuant to the requirements of GO 96-B.

14. Notice of the filing appeared on the Commission's Daily Calendar on August 23, 2010. No protests have been received.
15. The fee for this financing authority as required by § 1904(b) is \$374.

CONCLUSIONS OF LAW

1. BLWC's proposed plant construction costs are not reasonably chargeable to expenses or income.
2. BLWC's proposed loan and the use of proceeds to construct BLWC's facilities and improve or maintain its service are for proper purposes and are reasonably required to replace an old tank that is beyond repair, eliminate tank leaks, and increase system storage capacity.
3. It is in the public interest to authorize BLWC to enter into a loan agreement for \$187,000 to complete the construction discussed herein.
4. It is not adverse to the public interest to allow BLWC to encumber its assets to secure the proposed loan.
5. The loan authorization herein is not a finding of the reasonableness of BLWC's proposed construction plan or expenditures, the resulting plant balances in rate base, the resulting capital structure, or the cost of money, nor does it indicate approval of matters subject to review in general rate case or other proceedings.
6. BLWC 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 3 of this Resolution.
7. It is BLWC's responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken using the debt authorized herein.
8. BLWC's proposed loan is exempt from the Competitive Bidding Rule.
9. Consistent with § 824, BLWC 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.
10. BLWC should provide the Commission with the monthly reports required by GO 24-B.

THEREFORE, IT IS ORDERED that:

1. Bass Lake Water Company is authorized to borrow \$187,000 from Plumas Bank and encumber its assets to secure the loan.
2. Bass Lake Water Company shall only apply the proceeds of the loan to pay for the replacement of its leaking 30,000 gallon steel storage tank with a new 100,000 gallon tank and the replacement of over 1,000 feet of undersized water line, 8 service connections and 3 fire hydrants.
3. Bass Lake Water Company shall not use the proceeds authorized by this order to begin construction of capital projects until Bass Lake Water Company has obtained any required environmental review under the California Environmental Quality Act.
4. Bass Lake Water Company's debt authorized herein is exempt from the Commission's Competitive Bidding Rule.
5. Bass Lake Water Company shall 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 by this Resolution.
6. Bass Lake Water Company shall keep and maintain copies of the loan agreement and within thirty days from a request provide copies to the Division of Water and Audits' Utility Audit, Finance and Compliance Branch.
7. On or before the 25th day of each month, Bass Lake Water Company shall file with the Division of Water and Audits' Utility Audit, Finance and Compliance Branch the reports required by General Order 24-B. When the full amount of the debt has been received and reported, and the system improvements completed and all the capital expenditures reported, the General Order 24-B reporting shall terminate and will no longer be required.
8. The authority granted by this Resolution shall become effective when Bass Lake Water Company pays \$374 as required by Public Utilities Code § 1904(b).

9. 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 October 28, 2010. The following Commissioners approved it.

/s/ PAUL CLANON
PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President

JOHN A. BOHN
TIMOTHY ALAN SIMON

NANCY E. RYAN
Commissioners

Commissioner Dian M. Grueneich, being necessarily absent, did not participate.