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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4545
June 30, 2005**

R E S O L U T I O N

RESOLUTION W-4545. LITTLE BEAR WATER COMPANY, INC. (LITTLE BEAR). REQUEST FOR AUTHORITY TO SECURE A LOAN IN THE AMOUNT OF \$540,000 FOR SYSTEM IMPROVEMENTS AND TO ENCUMBER ASSETS IN CONNECTION WITH THE LOAN.

By Advice Letter (AL) No. 44 filed on May 10, 2005.

SUMMARY

This Resolution grants Little Bear the authority requested in AL No. 44.

Little Bear requests authority, pursuant to 816 through 851 of the Pub. Util. Code¹ to borrow a total of \$540,000 for water system improvements from the Steinbeck Credit Union (Steinbeck) and to encumber its assets in connection with the loan.

Notice of AL No. 44 was made by publication in the Commission's Daily Calendar of May 13, 2005. No protests have been received.

BACKGROUND

Little Bear, a California corporation, is a Class D water utility subject to the jurisdiction of this Commission. Little Bear provides water service to 705 customers and sewer service to 393 customers in the Pine Canyon area (upper and lower canyon) of King City, Monterey County. Water is pumped from wells and stored in small reservoirs before it enters the

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

water distribution system. The largest reservoir is a 125,000-gallon reservoir serving 551 connections in the lower canyon and the upper parts of the water system. While there are other distribution reservoirs in the upper pressure zones, the main distribution reservoir needs to be sized as if the water system only has one pressure zone and one reservoir.

Little Bear engaged the services of Monterey Bay Engineers, Inc.² to review its water storage needs (estimating on November 2004 that within the next ten years it will have 356 new customers that will increase its customer base to over a thousand). The engineering report made a water storage capacity study based on 1,016 service connections and determined a minimum water storage capacity of 472,250 gallons. However, in order to provide for extra storage capacity and a margin of safety for unforeseen power or equipment problems, the report recommended the construction of three 250,000-gallon epoxy coated steel tanks for a total capacity of 750,000 gallons.

In comparison, California Waterworks Standards³ show that the utility should maintain 500,000 gallons for 705 connections. Presently, the approved subdivisions for the district call for an additional 332 connections. Further analysis shows that the utility should maintain approximately 720,000 gallons of storage volume for an estimated 1,037 connections.

Little Bear states in its May 27, 2005 letter to the Water Division that in determining its needed storage volume, it was instructed by the Department of Health Services (DHS), Drinking Water Field Operations Branch, Monterey District to follow the above analysis.

California Waterworks Standards⁴ state in part:

Sufficient water shall be available from the water sources and distribution reservoirs to supply adequately, dependably and safely the total requirements of all users under maximum demand conditions before agreement is made to permit additional service connections to a system.

² Over the past 25 years this company has provided civil engineering services to Little Bear and also to various property owners of residential subdivisions within the service area of Little Bear.

³ Title 22, State of California, Chart 3, Needed Storage Volume for Metered Water Systems.

⁴ Article 2 of Chapter 16 of the General Requirements, Section 64562 Quantity of Supply.

Little Bear now proposes to construct three reservoirs to be installed in 2005 with additional storage volume by the year 2010.

In addition, Little Bear is concerned over the location and size of its existing main reservoir:

1. It is located in a remote area that is difficult to protect against vandalism or terrorism attack.
2. Although the reservoir is covered, the fencing around it is not designed to cope with security issues.
3. Access to the reservoir is through an easement across land recently acquired by an unfriendly owner who has forbidden access by Little Bear employees.

The existing reservoir will be retired under Little Bear's planned system improvement program.

Pursuant to its Income Statement as of December 31, 2004 attached to the filing as Schedule D, Little Bear reported that it generated total operating revenues of \$393,817 and net income of \$58,841. Total revenues for the year ended 2003 was \$370,333 and net income of \$54,788.

The company's Balance Sheet as of December 31, 2004 is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 635,900
Long Term Investment	180,000
Current Assets	129,455
Deferred Assets	<u>4,532</u>
 Total Assets	 <u>\$ 949,887</u>
 <u>Liabilities & Equity</u>	
Common Stock ⁵	\$ 31,500
Shareholders Advances ⁶	292,651
Retained Earnings	<u>301,516</u>
 Total Stockholders' Equity	 <u>\$ 625,667</u>
 Long-Term Debt	 5,365
Current Liabilities	152,971
Deferred Credits	<u>165,884</u>
 Total Liabilities & Equity	 <u>\$ 949,887</u>

DISCUSSION

Little Bear states in the filing that with the establishment of the new DHS Enhanced Surface Treatment Rules, it is imperative for the company to increase its storage capacity with the proposed construction of three new reservoirs at a location that is easier to protect and secure.

The reservoirs will be located approximately 2,800 feet southwest of the existing reservoir. The property will be deeded to the utility at no cost. The site location elevation is about 18 feet higher than the existing reservoir that would improve utility system pressure. The reservoir site

⁵ Little Bear has 500 authorized shares of stocks, of which 63 shares are issued and outstanding to Sierra Vista Properties.

⁶ This account represents all paid-in capital not derived from earnings. It includes such items as premiums and discounts related to the issuance of capital stock, donations to the utility of its capital stock, credits arising from the forgiveness of debt of the utility; credits arising out of a reorganization of the utility, or in connection with its recapitalization.

will be accessible by paved road, and a security fence would be installed in accordance with or as required by the Public Health Security and Bio-terrorism Act of 2002.

A. Construction Budget

The estimated construction costs are as follows:

Surveying and design		\$ 8,600
Site preparation:		
Earthwork	\$ 20,750	
Compaction testing & grading	4,000	
4" base rock for all-weather access	55,600	
6' chain link security fencing	8,568	
8' wide chain link gates	<u>2,400</u>	91,318
Design & construction of reservoir tanks	\$285,000	
PVC water main	69,860	
Gate valve, tee fitting, reducer, bend, cap	12,750	
Concrete thrust blocks	<u>1,800</u>	369,410
15% Contingency		<u>70,399</u>
Total		<u>\$539,727</u>

The requested \$540,000 debt financing is necessary to help Little Bear meet its construction funds requirements.

B. Description of Financing

Steinbeck has provided a letter of intent attached to the filing, for a commercial loan of \$540,000 at an interest rate from 6.75% to 9.25%, 5- year adjustable. Total term is 30 years with a 10-year balloon payment. Monthly amortization is estimated between \$3,504 to \$4,447. The underwriting fee and documentation fee are estimated at \$2,000 and \$1,000

respectively. Steinbeck requires 1st priority lien on the utility's properties including machinery, equipment, accounts, inventory, supplies, furniture and fixtures. A Deed of Trust will be executed.

C. Loan Approval

Article 5 of Chapter 4 of the Public Utilities Act (which is Part 1 of Division 1 of the Pub. Util. Code) sets forth conditions a public utility must satisfy to issue debt. One condition is that the debt be for a permitted purpose listed in § 817. That Section states, in relevant part, as follows:

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

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

Little Bear's proposed project is for the public good, and thus qualifies under this provision. However, we will not make a finding in this Resolution on the reasonableness of Little Bear's improvement program. Construction expenditures and the resulting plant balances in rate base are normally addressed in general rate cases. Many projects, including this filing, are built to comply with the new drinking water regulations and utility requirements. The proposed project is not included in Little Bear's current rates. Little Bear's present rate schedules for water service were authorized by Resolution W-4311 dated December 11, 2001.

Section 851 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..."

Pursuant to § 851, we will allow Little Bear to encumber its property to secure the debt authorized herein.

D. Rate Base Treatment

Little Bear plans to file a general rate case in the near future and request facilities fees that will provide additional funds to pay for a portion of the proposed storage tanks and for other utility infrastructure replacements.

For capital costs to be included in rate base, Little Bear should file an advice letter once the additions to plant have been completed. The filing will be subject to reasonableness review and will require Commission approval.

Little Bear states in the filing that it will notify its customers about the proposed project in compliance with the Service Improvement Plan Requirements.

E. Capital Ratios

Little Bear's capital ratios as of December 31, 2004, are presented below as recorded and adjusted to give pro forma effect to the projected \$540,000 debt requested in the filing:

	Recorded		Adjustment	Pro forma	
Long-term debt	\$ 5,365	0.9%	\$540,000	\$ 545,365	46.6%
Equity	<u>625,667</u>	<u>99.1%</u>	<u>0</u>	<u>625,667</u>	<u>53.4%</u>
Total Capitalization	<u>\$631,032</u>	<u>100.0%</u>	<u>\$540,000</u>	<u>\$1,171,032</u>	<u>100.0%</u>

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this Resolution of the reasonableness of the projected capital ratios for ratemaking purposes.

F. Competitive Bidding Rule

The Competitive Bidding Rule applies only to bond issues of over \$20 million by utilities with bond ratings of "A" or higher. Loans and negotiated transactions are exempt from the rule.

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 \$1080⁷.

COMMENTS

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

FINDINGS

1. Little Bear, a California corporation, is a Class D water utility subject to the jurisdiction of this Commission.
2. The additional storage tanks to be situated in a better location are needed to provide (1) high quality and reliable water supply, (2) room for customer growth, (3) promote better access, maintenance, and security.
3. The loan provides capital for the needed water system improvement and is a reasonable means of acquiring the necessary \$540,000 capital.
4. 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.
5. Authorizing Little Bear to encumber its properties, as security for the loan is not adverse to the public interest.
6. Plant additions to be included in rate base are subject to separate filing and reasonableness review.

⁷ The amount subject to the fee is \$540,000. The fee is determined as follows: $(\$2 \times (540,000/1000)) = \$1,080.00$.

7. There is no known opposition, and there is no reason to delay granting the authority requested.
8. Little Bear should pay the fee determined in accordance with § 1904(b).

THEREFORE, IT IS ORDERED THAT:

1. Little Bear Water Company, Inc. on or after the effective date of this order, is authorized to borrow \$540,000 from the Steinbeck Credit Union of Salinas upon terms and conditions substantially consistent with those set forth or contemplated in Advice Letter No. 44 and schedules attached thereto; to encumber its assets in connection with the loan; and to use the proceeds for the construction of three water storage tanks described in the body of this order.
2. Little Bear Water Company, Inc. shall maintain adequate records of the receipts and disbursements pertaining to the debt facility granted by this order because they may be subject to our review.
3. In order to include capital expenditures in rate base, Little Bear Water Company shall file an advice letter once the plant additions have been completed and are being used and useful, subject to reasonableness review.
4. The authority granted by this order shall become effective when Little Bear Water Company, Inc. pays \$1,080, the fee required by Pub. Util. Code § 1904(b).

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 June 30, 2005. The following Commissioners approved it:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
Commissioners

Commissioner John A. Bohn, being necessarily absent, did not participate.