

WATER/KPC/KOK/DLW/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4620
October 5, 2006**

R E S O L U T I O N

**RESOLUTION W-4620. ROGINA WATER COMPANY, INC.
ORDER AUTHORIZING ROGINA WATER COMPANY, INC.
TO SECURE A LOAN IN THE AMOUNT OF \$400,000 AND TO
ENCUMBER ITS ASSETS IN CONNECTION WITH THE
LOAN.**

By Advice Letter No. 48 filed on July 27, 2006.

SUMMARY

This Resolution grants Rogina Water Company, Inc. (Rogina) the authority requested in Advice Letter (AL) No. 48.

Rogina requests authority pursuant to §§ 816 through 851 of the Public Utilities Code to borrow \$400,000 for water system improvements from the Savings Bank of Mendocino County or other financial institutions (lender) and to encumber its assets in connection with the loan.¹

Notice of AL No. 48 was made by publication in the Commission's Daily Calendar of July 28, 2006. No protests have been received.

BACKGROUND

Rogina is a Class C water utility subject to the jurisdiction of this Commission. Rogina provides water to 953 metered rate customers in Talmage and vicinity, a suburban area three miles east of the city of Ukiah, in Mendocino County.

Rogina's water system consists principally of wells, pumps, storage tanks, distribution mains, meters, fire hydrants, and water treatment equipment. The distribution mains are made of steel, plastic or transite raging in size from 1.4 to

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

10 inches. Rogina obtains its water from five wells located on the east side of the Russian River, about a mile south of the Vichey Springs Bridge. The capacity of the wells is over 1,200 gallons per minute (gpm):

1. 60 hp well with production of 400 gpm
2. 100 hp well with production of 750 gpm (used as needed)
3. 3 hp well (augments the 60 hp well in the summer)
4. 10 hp well (augments the 100 hp well)
5. 2 hp well (standby)

All wells are located in close proximity to each other and are served by one electric meter. From the well sites, Rogina pumps the water approximately 1,200 feet to a 460,000-gallon steel tank and a 140,000-gallon concrete tank. There are also two 3,500-gallon capacity hydro pneumatic tanks and two 10 hp booster pumps. To serve homes along the higher elevation at Guidiville Road, Rogina maintains a two hp booster pump and a 3,000-gallon concrete storage tank.

Rogina's wells are located in an area very close to the Russian River. The State Water Resources Control Board (Board) requires that all the water pumped by the existing wells come from the river. The quantity of water to all water systems in the area, including Rogina will soon be limited by the Board. This will limit water service to existing customers and may jeopardize service to new customers. In addition, Rogina does not meet the distribution storage requirements of the State Health Department.

Pursuant to its Year 2005 Annual Report, Rogina reported that it generated total operating revenues of \$449,648 and net income of \$20,645. The company's balance sheet, as of December 31, 2005, is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$825,539
Current and Accrued Asset	34,018
Deferred Charges	<u>4,800</u>
 Total Assets and Deferred Charges	 <u>\$864,357</u>
 <u>Liabilities & Equity</u>	
Capital and Retained Earnings	\$376,304
Long-Term Debt	0
Current and Accrued Liabilities	104,852
Advances for Construction	110,613
Net Contributions in Aid of Construction	<u>272,588</u>

Total Liabilities & Equity \$864,357

The last general rate increase of Rogina was authorized by Resolution No. (Res.) W-4587, dated March 2, 2006, and became effective March 13, 2006.

The Commission, in Res. W-4587, indicated that in the near future, Rogina will need to construct a new well, a new steel tank, and replace approximately 173 meters.

Rogina's proposed construction expenditures, as shown in AL No. 48, are:

<u>Description</u>		<u>Amount</u>
<u>Water Well - Talmage Area</u>		
Water well - 200 feet deep	\$ 30,000	
New pump	22,500	
New pump house	<u>7,500</u>	
Subtotal		\$ 60,000
<u>Steel Storage Tank</u>		
Remove old concrete tank	\$ 20,000	
Site preparation	10,000	
New tank	<u>240,000</u>	
Subtotal		270,000
<u>Meters</u>		
120 - 5/8 x 3/4-inch meters	\$ 4,500	
52 - 1-inch meters	5,600	
1 - 8-inch meter	900	
Installation cost	<u>5,000</u>	
Subtotal		16,000
<u>Water Mains and Fire Hydrant</u>		
One fire hydrant	\$ 6,000	
636 feet of 4", 6" and 8" water mains	<u>11,000</u>	
Subtotal		17,000
Contingency ²		<u>37,000</u>

² Provision for increases in actual cost of materials and supplies.

Total \$400,000

Rogina points out that the construction of the new well in the Talmage area and the new storage tank are due to: a) groundwater levels dropping at present well site; b) river bottom lowering from loss of gravels so water table is dropping; and c) the Board will classify all wells to be river underflow and not ground water, so water amounts pumped will be limited.

The new well will be located in an area that is not close to the Russian River and there will be no limitation on the quantity of water that can be pumped. If contamination at the present site occurs, the new well site would act as a backup. This additional source of water could serve existing and future customers. In addition, the new well site will be in a different power grid, so when power is curtailed at one site, the other could operate. The projected growth in 2010 is 1,082 connections.

Res. W-4587 states that when Rogina completes its plant improvements, it should file an advice letter to recover costs associated with the plant improvements, subject to reasonableness review by the Water Division.

Rogina indicates that its Statement of Cash Requirements for 2006 and 2007 are:

<u>Uses of Funds</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Funds for Construction	\$400,000	\$ 0	\$400,000
Water Plant to be Funded			
With Internal Funds	20,000	20,000	40,000
Bonds, Notes Retirement	0	0	0
Short-term Debt Repayment	0	0	0
Refund of Advances for			
Construction	<u>25,000</u>	<u>25,000</u>	<u>50,000</u>
Total Cash Required	\$445,000	\$ 45,000	\$490,000
Less: Estimated Cash Avail- Able from Internal Sources	<u>45,000</u>	<u>45,000</u>	<u>90,000</u>
Additional New Funds Required from Outside Sources	<u>\$400,000</u>	<u>\$ 0</u>	<u>\$400,000</u>

The requested authority in this filing and the projected funds from internal sources would help meet Rogina's financial requirements for 2006 and 2007.

DISCUSSION

Rogina seeks authority to enter into a loan agreement with a lender for \$400,000 to finance the construction and improvement of plant. Rogina received one proposal from the Savings Bank of Mendocino County for a loan with an adjustable interest rate starting at 9%, over a term of fifteen and one-half years. However, Rogina is currently looking for better terms from other financial institutions.³ Rogina intends to execute and issue a promissory note and deed of trust to a lender that will serve its funding requirements. The proposed loan will be secured by the assets of Rogina.⁴

Rogina proposes to use the loan proceeds as follows:

1. Install a new 400,000-gallon steel storage tank to meet distribution storage requirements and replace the old 140,000-gallon concrete tank build in 1948, which will be retired. The site will be prepared for a new foundation and a concrete ring will be poured. The tank will be an Aquastore glass-fused-to-steel bolted tank, 53 feet of diameter with a sidewall height of 24.52 feet.⁵
2. Drill a new well in the Talmage area on a rancher's property. A test hole will be drilled to 200 feet and a log will be taken to determine if the well site is satisfactory. A 16" diameter well will be drilled to 200 feet cased and tested. This new well will add to the existing supply and will provide the water system with another site in case of water shortage or power shortage. Due to loss of gravel, the water table is dropping at the existing well so additional supply is required. An Easement Agreement will be executed with the rancher.
3. Replace 120 5/8 x 3/4-inch meters, 52 1-inch meters, a one 8-inch meter, and replace about 636 feet of 4", 6", and 8" water main, and a fire hydrant.

³ As of August 11, 2006, the 30-year Treasury bond yield is 5.00%. The bank prime rate is 8.25%.

⁴ Currently, Rogina does not have any secured debt. There is no existing encumbrance on its assets.

⁵ Designed and constructed by Aquastore/WESCO of Torrance, California.

Rogina's capital ratios are shown below, as recorded and as adjusted, giving pro forma effect to the \$400,000 loan transaction:

	Recorded ⁶		Adjustment	Pro forma	
Long-term debt	\$ 0	0.0%	\$400,000	\$400,000	51.5%
Equity	<u>376,304</u>	<u>100.0%</u>	<u>-</u>	<u>376,304</u>	<u>48.5%</u>
Total Capitalization	<u>\$376,304</u>	<u>100.0%</u>	<u>\$400,000</u>	<u>\$776,304</u>	<u>100.0%</u>

Based on Rogina's 2005 balance sheet, the proposed debt of \$400,000 plus total liabilities of \$104,852, assuming liabilities don't increase or decrease would equal \$504,852. This amount divided by total equity of \$376,304 produces a debt-to-equity ratio of 1.34, indicating that Rogina will be using \$1.34 of liabilities for every dollar of equity in the business. The debt-to-equity ratio is an indicator of whether the company is excessively using debt for financing purposes. A certain level of debt is acceptable and too much debt presents a hazardous signal to investors. Normally, industrial companies maintain a maximum of a 1 to 1 ratio. However, utilities can operate safely with much higher ratios due to the nature of their business, which require investment in infrastructure, plant, property, and equipment. In this instance, Rogina, a water utility company, will be operating at a ratio of 1.34 to 1.

As discussed in Res. W-4587, Rogina is faced with a system problem. The requested funding is necessary to finance capital expenditures. The improvements will place Rogina in compliance with the distribution storage requirements of the State Health Department. In addition, the improvements would be a proper use of funds, pursuant to § 817(b). Therefore, this Commission will authorize Rogina's financing request. Pursuant to § 851, we will also permit Rogina to encumber its assets, as long as it serves to secure the debt we are authorizing herein.

Our authorization is not to be construed as a finding of the value of Rogina's stock or properties nor is it indicative of the amounts to be included in proceedings for the determination of just and reasonable rates. Consistent with § 824, Rogina shall maintain records to (1) identify the specific long-term debt issued pursuant to this order, and (2) demonstrate that the proceeds from such debt have been used only for the purposes authorized by this order.

We will not make a finding in this Resolution concerning the ratemaking treatment of Rogina's plant investment or a reasonableness review of Rogina's operations. Construction expenditures and the resulting plant balances in rate

⁶ Actual capital structure, as of December 31, 2005, as reported by Rogina.

base are issues that are normally addressed in general rate cases or other ratemaking proceedings. Authorization for rate base recovery shall be by separate advice letter filing.

Ordering Paragraph No. 3 of Res. W-4587 states that:

Rogina Water Company Inc. is authorized to file an advice letter seeking authorization to include in rate base plant additions set forth in its proposed capital improvements. Water Division shall verify that the plant additions have been completed and placed in service. To the extent Rogina Water Company's advice letter filing is compliant with this resolution, the rate adjustments shall be effective on regular statutory notice.

COMMENTS ON DRAFT RESOLUTION

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.

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). Pursuant to § 1904(b), Rogina should pay the fee of \$800.⁷

FINDINGS

1. Rogina's proposed well and system improvements are needed to provide quality and reliable water supply and to preserve and lengthen the useful life of Rogina's water system.
2. The proposed plant additions will put Rogina in compliance with the distribution storage requirements of the State Health Department.
3. The proposed loan provides capital for the needed water system improvements and is a prudent means of acquiring the estimated \$400,000 capital.

⁷ The amount subject to the fee is \$400,000. The fee is determined as follows:
(\$2 x (400,000/1,000)) = \$800.

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. The Commission does not by this Resolution determine that Rogina's construction budget presented herein is necessary or reasonable for ratemaking purposes.
6. Resolution W-4587 requires Rogina to file an advice letter seeking authorization to include in rate base the completed plant additions (new well, steel tank and replacement of approximately 173 meters, 636 feet of mains, and a fire hydrant), subject to reasonableness review by the Water Division.
7. The proposed borrowing is for proper purposes.
8. Rogina should pay the fee determined in accordance with § 1904(b).

THEREFORE, IT IS ORDERED that:

1. Rogina Water Company, Inc. is authorized to secure a loan from the Savings Bank of Mendocino County or other financial institutions in an amount not to exceed \$400,000 for the purposes specified in Advice Letter No. 48.
2. Rogina Water Company, Inc. is authorized to encumber its assets in connection with the debt issue.
3. Rogina Water Company, Inc. shall file with the Utility Audit, Finance and Compliance Branch (UAFCB) of the Water Division, a copy of the loan documents within 15 days of execution, and upon completion of the project, a summary detailing the amount of the loan and disbursements thereof.
4. Rogina Water Company, Inc. shall notify UAFCB in writing of the completion date of the project.
5. Rogina Water Company, Inc. shall maintain records to (1) identify the specific long-term debt issued pursuant to this order, and (2) demonstrate that the proceeds from such debt have been used only for the purposes authorized by this order.

6. The authority granted by this order shall become effective when Rogina Water Company, Inc. pays \$800, the fee set forth by Public Utilities Code § 1904(b).

