

WATER/ICRJ/FLC/KKL/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4492
August 19, 2004**

R E S O L U T I O N

RESOLUTION W-4492. THE SEA RANCH WATER COMPANY (SRWC). REQUEST FOR AUTHORIZATION TO SECURE A LOAN IN THE AMOUNT OF \$150,000 TO BE USED FOR TANK IMPROVEMENT.

By Advice Letter No. 67 filed on March 19, 2004 and Advice Letter No. 67-A filed on July 1, 2004.

SUMMARY

This Resolution grants SRWC the authority requested in Advice Letter (AL) No. 67, as supplemented by AL No. 67-A.

SRWC requests authority pursuant to §§ 816 through 830 of the Public Utilities (Pub. Util.) Code and Rule 33 of the Commission's Rules of Practice and Procedure to borrow a total of \$150,000 from The Sea Ranch Association (TSRA), the proceeds of which will be used for tank improvement.

Notice of AL No. 67 was made by publication in the Commission's Daily Calendar of March 24, 2004. Notice of AL No. 67-A was published on July 6, 2004. No protests have been received.

BACKGROUND

SRWC is a Class C water utility subject to the jurisdiction of this Commission. SRWC provides water to 1,720-metered customers in an area located halfway between Point Reyes and Fort Bragg, bisected by State Highway 1, approximately 7 miles southeast of Gualala, Sonoma County.

Pursuant to its Year 2003 Annual Report, SRWC reported that it generated total operating revenues of \$614,280 and a net loss of \$17,605. The company's balance sheet is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$5,133,608
Current and Accrued Asset	453,313
Deferred Charges	<u>0</u>
Total Assets and Deferred Charges	<u>\$5,586,921</u>
<u>Liabilities & Equity</u>	
Capital and Retained Earnings	\$4,392,123
Long-Term Debt	0
Current and Accrued Liabilities	91,912
Net Contributions in Aid of Construction	<u>1,102,886</u>
Total Liabilities & Equity	<u>\$5,586,921</u>

TSRA was formed in 1965 as the property owners' association for the northern California coastal development known as The Sea Ranch. Castle & Cooke, Inc. developed the Sea Ranch and control over the management of common area was handed over from the developers to TSRA in 1965. TSRA is a non-for-profit corporation that exists for the mutual benefit of all of its members, who are owners of property in The Sea Ranch. Each person who owns property in The Sea Ranch is a member of TSRA.

TSRA manages and maintains all common area facilities and amenities on The Sea Ranch, and represents the collective owners' interests with county, state and federal agencies. TSRA also provides facilities maintenance, security services and planning/design approval and oversight for The Sea Ranch.

In 1997, TSRA purchased all the stock of SRWC as part of an exit agreement with the developer (Decision 97-08-019). SRWC is a fully owned subsidiary of TSRA and its stock is owned in common by all TSRA members. TSRA has no other holdings.

TSRA Resolution No. 204 committed funds totaling \$150,000 to SRWC. SRWC will use this amount for its tank improvement. The loan carries a 4.02% interest per annum, payable in ten years.

DISCUSSION

SRWC is undertaking several large projects for the purpose of improving and enhancing its water system. Its first project involves adding down slope armoring (rip-rap) to the face of the reservoir in order to prolong its life, reduce potential water loss, and enhance the quality of the water stored within it. The \$653,000 cost of the work was paid for by TSRA.

The second project is improvement of its main water storage tank in order to preserve and lengthen its useful life. Welding, coating, and the Occupational Safety and Health Administration (OSHA) upgrades for the ladder and hatches are estimated at \$114,950. SRWC intends also to purchase a portable booster pump station for \$40,000. The pump is necessary to keep the water system functional during tank maintenance. This portable station will also be used in the future as part of the utility's disaster preparedness plan, in case of sudden loss of part of the system due to earthquake or other disaster.

The project cost is broken down as follows:

<u>Description</u>	<u>Amount</u>
Tank Maintenance:	
Contractor costs for interior painting, Tank 1	\$ 74,750
Contractor costs for exterior painting, Tank 1	20,700
Tank 1 OSHA upgrades for ladders	9,500
Welding repairs for Tank 1	<u>10,000</u>
Sub-Total Tank Maintenance	\$114,950
Portable booster pump station	<u>\$ 40,000</u>
Total	\$154,950
Less: Reserve replacement fund	<u>(4,950)</u>
Net Loan Request	<u>\$150,000</u>

We have reviewed SRWC's request for financing authority and the proposed use of proceeds and have determined that it is for proper purposes and is for the public good. As a public utility, SRWC has the responsibility to maintain its quality of service and to provide necessary improvement of its water system.

We will therefore authorize SRWC to borrow the total principal sum of \$150,000 and to issue a long-term promissory note in connection with said borrowing on terms and conditions contemplated herein.

We will not make a finding in this Resolution on the reasonableness of SRWC's proposed improvement program. Construction expenditures and the resulting plant balances in rate base are normally addressed in general rate cases.

The ratepayers ultimately pay for all water system requirements and improvements, regardless of the manner in which they are financed. If the utility were able to borrow the money to make the water system improvements entirely from regular commercial sources, it would likely be more expensive for the ratepayers than the 4.02% unsecured loan provided by TSRA. Likewise, if the utility owners invested their own funds to pay for the water system improvements they would be entitled to equity-level earnings on such funds.

The fee for this financing authority as set forth by Pub. Util. Code 1904(b) is \$300.¹

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

FINDINGS

1. The proposed tank improvements are needed to provide quality and reliable water supply and to preserve and lengthen the useful life of SRWC's water system.
2. The unsecured loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring the necessary \$150,000 capital.
3. The proposed borrowing is for proper purposes.
4. The Commission does not by this Resolution determine that SRWC's construction programs are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or cost of capital proceedings.
5. SRWC should pay the fee determined in accordance with Pub. Util. Code § 1904(b).

¹ The amount subject to the fee is \$150,000. The fee is determined as follows: $(\$2 \times (150,000/1,000)) = \300.00 .

THEREFORE, IT IS ORDERED THAT:

1. The Sea Ranch Water Company on or after the effective date of this order is authorized to borrow up to \$150,000 for a period of ten years at 4.02 percent interest; to execute and deliver the loan contract with The Sea Ranch Association; and to use the proceeds for the purposes specified in Advice Letter No. 67, as supplemented by Advice Letter No. 67-A.
2. The Sea Ranch Water Company shall file with the Water Division a copy of the loan documents within 15 days of execution.
3. The Sea Ranch Water Company shall notify the Water Division when the project has been completed.
4. The Sea Ranch Water Company shall upon completion of the project provide the Water Division a summary detailing the amounts of loan receipts and disbursements related to this order.
5. The authority granted by this order shall become effective when The Sea Ranch Water Company pays \$300.00, the fee set forth by Public Utilities 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 August 19, 2004; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director