

**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-4819  
DECEMBER 17, 2009**

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

**RESOLUTION W-4819. RESOLUTION GRANTING LITTLE BEAR WATER COMPANY, INC. AUTHORITY TO BORROW \$475,000 AND TO ENCUMBER ITS ASSETS IN CONNECTION WITH THE DEBT.**

**By Advice Letter No. 54 filed on October 14, 2009.**

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**SUMMARY**

This Resolution grants Little Bear Water Company, Inc. (LBWC) the authority requested in its Advice Letter (AL) 54.

LBWC requests authority, pursuant to §§ 816 through 851 of the Public Utilities Code (PUC), to borrow \$475,000, from financial institutions to refinance its existing water system long-term debt, and to encumber its assets to secure the debt.<sup>1</sup> In addition, LBWC requests an exemption from the Commission's Competitive Bidding Rule and an exemption from the fees prescribed by PUC § 1904(b).

**NOTICE AND PROTESTS**

Notice of AL 54 was made by publication in the Commission's Daily Calendar of October 16, 2009. In compliance with the Water Industry Rule 4 of General Order 96-B, LBWC mailed and served a copy of AL 54 to all parties on its service list. No protests have been received.

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<sup>1</sup> All statutory references are to the Public Utilities Code unless otherwise indicated. LBWC also has a sewer system, which shares some expenses with the water system and is also regulated by the Commission.

**BACKGROUND**

LBWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission. LBWC is owned by Sierra Vista Properties, a real estate investment company. LBWC provides water service to 703 metered customers and 52 flat-rate customers in the Pine Canyon area (upper and lower canyon) of King City, Monterey County.

In 2004, the Department of Public Health (previously the Department of Health Services) instructed LBWC to determine its water storage volume according to the California Waterworks Standards. These standards require that sufficient water be available from water sources and distribution reservoirs to supply adequately, dependably and safely, the total requirements of all users under maximum demand conditions. LBWC engaged the services of Monterey Bay Engineers, Inc. to review its water storage needs, and the engineering report recommended the construction of three 250,000-gallon epoxy coated steel tanks for a total capacity of 750,000 gallons.

On May 10, 2005, LBWC filed Advice Letter No. 44 requesting authority to borrow \$540,000, for the construction of three reservoirs, and to encumber its assets in connection with the loan. In Resolution (Res.) W-4545, dated June 30, 2005, the Commission granted LBWC authority to borrow \$540,000 from the Steinbeck Credit Union to construct three reservoirs for its water system and to encumber its assets in connection with the loan.

In Res. W-4621, dated October 19, 2006, the Commission authorized LBWC to procure the \$540,000 loan authorized by Res. W-4545, from Pinnacle Bank in lieu of Steinbeck Credit Union. On October 28, 2006, LBWC obtained the loan from Pinnacle Bank for a term of 10 years, amortized over a period of 15 years, at an interest rate of 7.26%. The loan agreement with Pinnacle Bank required Albin Morisoli, LBWC's President, to personally guarantee the loan, which he accepted.

LBWC constructed its storage infrastructures by adding two 239,000-gallon storage tanks in 2006 and an additional 239,000-gallon storage tank in 2007, adding 717,000 gallons to its distribution storage capacity.<sup>2</sup> LBWC completed the project in 2007.<sup>3</sup>

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<sup>2</sup> LBWC originally proposed to construct three 250,000-gallon storage tanks.

<sup>3</sup> The last general rate increase of LBWC was authorized in Res. W-4736, as modified by Decision (D.) 09-09-013, dated September 10, 2009, for a general rate increase of \$142,146 or 33.6% with adopted total gross revenues of \$565,800.

In Res. W-4736, the Commission stated that increases in LBWC's rate base in 2006 and 2007, were due to the increases in storage capacity, which included, the two 239,000-gallon storage tanks added in 2006 and the additional 239,000-gallon storage tank added in 2007. The Division of Water and Audits performed an independent evaluation of LBWC's minimum storage needs and concluded that the substantial storage increases were justified to serve the needs of LBWC's current customers.

Due to personal reasons, Mr. Morisoli now wishes to be released from his personal guarantee with Pinnacle Bank. To accomplish this, LBWC requests, in the current filing, to refinance the Pinnacle Bank loan, which has an estimated remaining balance of \$475,000.

In its water system Income Statement for the year ending December 31, 2008, LBWC reported that it generated total operating revenues of \$419,906, with a net loss of \$17,225. LBWC's Balance Sheet, as of December 31, 2008, as reported in its 2008 Annual Report, is summarized below:

**Water System  
Balance Sheet as of December 31, 2008**

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$1,216,862
Water Plant Construction Work in Progress	5,000
Investments	180,000
Current & Accrued Assets	105,399
Deferred Charges	<u>27,592</u>
Total Assets	<u>\$1,534,853</u>
 <u>Liabilities &amp; Equity</u>	
Common Stock	\$ 31,500
Other Paid-in Capital	292,651
Retained Earnings	445,286
Long-Term Debt	488,476
Advances from Associated Companies	-
Current & Accrued Liabilities	182,459
Deferred Credits	16,301
Net Contributions in Aid of Construction	<u>78,180</u>
Total Liabilities & Equity	<u>\$1,534,853</u>

**DISCUSSION**

LBWC requests authority to borrow \$475,000 from financial institutions to refinance the existing long-term debt authorized by Res. W-4545 and Res. W-4621. LBWC proposes to execute and issue a promissory note and deed of trust to the financial institution that provides it with the required financing.

LBWC received a letter from Wulff, Hansen & Co. Investment Bankers (Investment Banker) offering to provide private placement services to LBWC, up to the amount of \$480,000. LBWC anticipates that the term of the long-term debt would not exceed 20 years and the interest rate will be 9.5%. However, the actual interest rate will be determined by market conditions as of the actual date of issuance. The debt will be secured by LBWC's assets.

LBWC claims that although the interest rate might be higher for this refinancing, the new long-term debt would be more convenient because it would be amortized over a period of 20 years instead of the current amortization term of 15 years. Further, LBWC points out that if Mr. Morisoli did not guarantee the original loan, the interest rate on the Pinnacle loan would have been higher.

Section 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..."

LBWC's proposed refinancing of its long-term debt is a permitted use of proceeds under § 817 (g) and extending the term of the water storage financing and permitting LBWC to encumber its assets in conjunction with the loan would not be adverse to the public interest. However, we will not make a finding in this Resolution concerning the reasonableness of LBWC's cost of money arising from the issuance of LBWC's proposed debt. These issues are normally addressed in general rate case or other ratemaking proceedings.

Consequently, we will authorize LBWC to borrow \$475,000 from financial institutions to refinance its existing long-term debt and to encumber its assets to secure the debt.

Consistent with § 824, LBWC will need to 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 in this Resolution.

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee required by § 1904(b). On July 11, 2005, LBWC paid the fee of \$1,080, for the \$540,000 debt authorized by Res. W-4545. Section 1904(b) states, in part, that a fee need not be paid on such portion of any such issue that may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has theretofore been paid to the Commission. Accordingly, we will grant LBWC's request to not pay an additional fee.

Under the provisions of Res. F-616, LBWC's proposed issuance of debt is exempt from the Commission's Competitive Bidding Rule because the principal amount will not exceed \$20,000,000.

### **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. LBWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission.
2. LBWC's construction of three reservoirs was completed in 2007 and these reservoirs are included in rate base pursuant to Res. W-4736.
3. The proposed borrowing to refinance the Pinnacle Bank loan will release Mr. Morisoli from his personal guarantee of the Pinnacle Bank loan.
4. The proposed borrowing in this filing is for proper purposes and is not adverse to the public interest.
5. Authorizing LBWC to encumber utility assets is for proper purposes and is not adverse to the public interest.
6. This Resolution does not address the reasonableness of the cost of money resulting from the issuance of securities or indebtedness.
7. On July 11, 2005, LBWC paid the fee of \$1,080, for the \$540,000 debt authorized by Res. W-4545, which LBWC will refinance with the authority granted herein.

8. The Commission in Res. F-616, among other things, determined that debt offerings of \$20,000,000 or less are exempt from its Competitive Bidding Rule.
9. Notice of the filing appeared on the Commission's Daily Calendar of October 16, 2009. No protests have been received.

### **CONCLUSIONS OF LAW**

1. Pursuant to § 818, LBWC should be authorized to issue debt as requested in the filing.
2. Pursuant to § 851, LBWC should be authorized to execute a promissory note and encumber its property whenever such encumbrance serves to secure the debt authorized herein.
3. Consistent with § 824, LBWC 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.
4. The reasonableness of the interest rate and cost of money arising from debt capital are normally subject to review in general rate case or other proceedings.
5. Pursuant to § 1904(b), a fee does not need to be paid on any portion of any issue that would be used to guarantee, take over, refund, discharge, or retire any evidence of indebtedness on which a fee has been paid to the Commission.

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

1. Little Bear Water Company, Inc. is authorized to borrow \$475,000 from financial institutions to refinance its existing long-term debt authorized by Resolutions W-4545 and W-4621 and to encumber its property in connection with the refinancing.
2. Little Bear Water Company shall keep and maintain copies of the debt instruments and within thirty days from executing the refinancing provide copies to the Division of Water and Audits' Utility Audit, Finance and Compliance Branch.
3. Little Bear Water Company, Inc. shall maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution and (ii) demonstrate

