

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-4848
OCTOBER 28, 2010**

R E S O L U T I O N

**RESOLUTION W-4848. RESOLUTION GRANTING TAHOE CEDARS
WATER COMPANY AUTHORITY TO BORROW \$600,000 FROM
FINANCIAL INSTITUTIONS AND TO ENCUMBER ITS ASSETS IN
CONNECTION WITH THE DEBT.**

By Advice Letter No. 43 filed on July 6, 2010.

SUMMARY

This Resolution grants Tahoe Cedars Water Company (TCWC) the authority requested in its Advice Letter (AL) 43.

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

1. Borrow \$600,000 from financial institutions;
2. Encumber utility assets in connection with the debt;
3. Be exempt from the Commission's competitive bidding rule; and
4. Use the proceeds of the debt to finance capital improvements for years 2010 and 2011.

BACKGROUND

TCWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission. TCWC is owned by Mid Sierra Utilities, Inc., a California corporation incorporated on October 22, 1971. TCWC provides water service to approximately 1,132 flat-rate and 24 metered customers in the subdivided areas known as Tahoe Cedars, Tahoe Cedars Addition, Pomin Park, and Wilson subdivision and adjacent areas located near the community of Tahoe, Placer County.

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

TCWC's water system consists of, among others things, structures, wells, pumping equipment, reservoir tanks, mains, meters and hydrants.

A. Financial Information

In its Income Statement for the year ending December 31, 2009, TCWC reported that it generated total operating revenues of \$370,515 and a net income of \$6,232. TCWC's Balance Sheet, as of December 31, 2009, as reported, is summarized below:

Table 1	
Balance Sheet as of December 31, 2009	
<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 780,318
Investments	-
Current & Accrued Assets	128,185
Deferred Charges	<u>221,739</u>
Total Assets and Deferred Charges	<u><u>\$1,130,242</u></u>
 <u>Liabilities & Equity</u>	
Common Stock	\$ 85,000
Other Paid-in Capital	24,349
Retained Earnings	824,069
Current & Accrued Liabilities	178,692
Net Contributions in Aid of Construction	<u>18,132</u>
Total Liabilities & Equity	<u><u>\$1,130,242</u></u>

On January 1, 2010, TCWC received a Consumer Price Index increase of \$6,322 or 1.8% of estimated annual revenues of \$351,195. On May 26, 2010, TCWC filed for a general rate case under AL 42, for an increase of \$270,292 or 76.96% over revenues at present rates of \$351,195. TCWC estimates that the proposed total revenues of \$621,487 will generate a net income of \$125,128 in 2010.²

B. System Evaluation/Project Justification

At present, TCWC has only one approved water source and plans to construct a new water well that will be used as a back-up water source for the benefit of the utility and its customers. This will put TCWC in compliance with the water quality and supply requirements pursuant to Section II-B (3) of General Order (GO) 103-A, and with the requirements of the Department of Public Health's Title 22, Section 64554.

² \$351,195 + 270,292 = \$621,487

The Standards of Service for Quality of Water pursuant to Section II, 2. B. (3) (a) states in part, that a system's facilities shall have the capacity to meet the source capacity requirements as defined in the Waterworks Standards, California Code of Regulations (CCR) Title 22, Section 64554, or its successor.

Title 22, Section 64554 (c) states in part, that a community water system using only groundwater shall have a minimum of two approved sources before being granted an initial permit. The system shall be capable of meeting maximum day demand (MMD) with the highest capacity source off line.

TCWC states that it will also replace or install approximately 66,497 feet of water mains with diameter size ranging from 1-1/2" to 8". The present water mains are over 40 years old and need to be replaced or upgraded. TCWC plans to install approximately 20,000 feet of 8" main line and 40,000 of 6" main line, over a period of 40 years. In addition, TCWC plans to upgrade some of its existing 6" main line to 8".

On average, TCWC plans to install 1,000 feet of 6" main line and 500 feet of 8" main line per year. However, due to the condition of its existing pipes, TCWC will initially add approximately 1,200 feet of 6" and 800 feet of 8" water main, with an estimated cost of \$300,000.

C. Construction Budget

TCWC's projected construction budget for years 2010 and 2011, as shown in Schedule B to the filing and information provided by TCWC on August 26, 2010, are as follows:

Table 2
Construction Budget for Years 2010 and 2011

<u>New Water Well</u>	
Water well including casing	\$180,000
Pump, motor and electrical equipment	50,000
Pump house	<u>20,000</u>
Sub-total	<u>\$250,000</u>
<u>Water Main</u>	
Replace 1,200 feet of 6" main line @ \$150/foot	\$180,000
Replace 800 feet of 8" main Line @ \$150/foot	<u>120,000</u>
Sub-Total	<u>\$300,000</u>
<u>Other</u>	
Other plant additions (motors, pumps, etc.)	\$ 20,000
Contingency and Issuance Costs	<u>50,000</u>
Sub-Total	<u>\$ 70,000</u>
Total	<u>\$620,000</u>

D. Cash Requirements Forecast

TCWC's estimated cash requirements forecast is summarized as follows:³

Table 3	
Cash Requirements Forecast for Years 2010 and 2011	
Funds for Construction	\$620,000
Bonds, Notes Retirement	0
Short-Term Debt Repayment	<u>0</u>
Total Cash Requirements	\$620,000
Less: Estimated Cash Provided from Internal Sources	<u>20,000</u>
Funds Required from External Sources	<u>\$600,000</u>

As indicated in the Financial Information section, TCWC estimates a yearly net income of \$125,128. TCWC estimates that it will use \$20,000 of utility income in years 2010 and 2011 for plant improvements. In its cash flow analysis included in AL 43 and other information that TCWC provided, it projects it will have approximately \$110,351 of cash on hand at the end of 2010 after it enters into the loan and undertakes the construction, taking into account its projected net income, loan proceeds, construction costs and debt service costs. Of this, TCWC wants to keep 70% on hand for emergencies and approximately 30% or \$33,105 for other water plant acquisitions.

E. Financing Request

In this filing, TCWC seeks authorization to enter into a secured loan in the amount of \$600,000 with financial institutions. TCWC intends to apply the net proceeds from the proposed debt to finance its water plant to be built in 2010 and 2011, as shown in Table 2, and to pay costs associated with the issuance of this debt.

On June 8, 2010, TCWC received a proposal from Homevest, an investment banker, for a secured long-term loan of \$600,000, with a term not to exceed 20 years and an interest rate to be based on current rates. At this time, TCWC is in the process of contacting additional financial institutions to negotiate for a loan. TCWC will choose a lender that provides the best terms for the company.

TCWC points out that it is aware that due to the uncertainties in the financial market, banks prefer business loans that are collateralized with real estate properties, liquid assets, or secured with the personal assets of the owners, and that the term of the loans range from 20 years or less.

³ From AL 43 Schedule I and information provided in an email by TCWC on August 26, 2010.

TCWC plans to execute and issue a promissory note or other agreements and, as may be required by lender, encumber utility assets in connection with the proposed debt.

F. Capital Structure

In AL 43, TCWC presented its capital structure as recorded, as of December 31, 2009, and adjusted to give pro forma effect to TCWC's proposed financing transaction:

Table 4					
Capital Structure					
	<u>Recorded</u>		<u>Adjustments</u>	<u>Proforma</u>	
Long-term debt	\$	0	0.00%	\$576,474 ^(A)	\$576,474 34.85%
Common Stock		85,000	9.11%	-	85,000 5.14%
Paid In Capital		24,349	2.60%	-	24,349 1.47%
Retained Earnings		<u>824,069</u>	<u>88.29%</u>	<u>144,222^(B)</u>	<u>968,291</u> <u>58.54%</u>
Total Capitalization		<u>\$933,418</u>	<u>100.00%</u>	<u>\$720,696</u>	<u>\$1,654,114</u> <u>100.00%</u>

(A) Issuance of \$600,000 requested in this filing; estimated principal payment on long-term debt of \$11,235 in 2010 and \$12,291 in 2011.

(B) Projected net revenues of \$125,128 in 2010 and \$125,128 in 2011; interest payment on long-term debt of \$53,544 in 2010 and \$52,490 in 2011. ⁴

NOTICE AND PROTESTS

Only July 2, 2010, TCWC served its AL 43 on its adjacent utilities pursuant to GO 96-B, Water Industry Rule 4.1.⁵ Notice of AL 43 was made by publication in the Commission's Daily Calendar of July 9, 2010. No protests have been received.

DISCUSSION

As a public utility, TCWC has the responsibility to maintain its quality of service, meet supply requirements, and provide necessary improvements to its present water system. TCWC's proposed new well will provide back-up water source to meet TCWC's capacity needs and comply with the regulatory and MDD requirements of California. TCWC's proposed staggered replacement and upgrade of old and inadequate water mains will improve the quality and condition of its distribution system.

⁴ TCWC estimates it will use \$20,000 of its 2010 and 2011 earnings for plant improvements and maintain the balance in retained earnings for other expenses and emergency needs.

⁵ No customers, developers or other interested parties have requested to be served with TCWC's advice letters.

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. TCWC’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 TCWC’s proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases.

TCWC’s projected cash requirements indicate that internally generated funds will provide \$20,000 or 3.23% of its cash requirements of \$620,000 for years 2010 and 2011. The requested \$600,000 debt issue, the subject of this filing, appears necessary to help TCWC meet its projected external funds requirements and maintain funds in reserve for emergencies and any other necessary plant acquisitions. However, we will not address the cost of money resulting from TCWC’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 2 and Table 4, the construction of the planned improvements and the issuance of the proposed debt will significantly increase TCWC’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, its 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, TCWC’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, TCWC’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 this Resolution, since these improvements will benefit ratepayers over many years, TCWC's proposed projects are not reasonably chargeable to expenses or income.

Therefore, we will authorize TCWC to obtain debt capital in an aggregate principal amount not to exceed \$600,000 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 improvements and 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.

TCWC's loan proposal may require that TCWC grant a security interest in its assets to the lender. TCWC 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 TCWC does not currently have sufficient internal resources to complete the project, at this time. Therefore, we will allow TCWC to encumber its assets in conjunction with obtaining financing for its proposed construction projects.

Consistent with § 824, TCWC 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.

TCWC 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, TCWC'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, TCWC 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 \$1,200.⁶

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. TCWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission.
2. TCWC is responsible for maintaining its quality of service and providing necessary improvements to its water system.
3. The Department of Public Health requires that a community water system using only groundwater shall have a minimum of two approved sources.
4. TCWC currently has one water source. In addition, TCWC's present water mains are over 40 years old and need to be replaced or upgraded.

⁶ The fee is assessed on \$600,000 of authorized borrowing as follows: \$2 times (\$600,000/\$1,000) equals \$1,200.

5. TCWC's proposed new well will provide additional water source to its system that will enable it to meet capacity needs and comply with the regulatory requirements of California.
6. TCWC's proposed construction of a new water well and the replacement or upgrade of existing old main lines are listed in Table 2 of this Resolution.
7. TCWC seeks authorization to obtain a loan in the amount of \$600,000 from financial institutions to be used for these capital improvements. TCWC also seeks authorization for the proposed loan to be secured by the assets of the utility.
8. TCWC needs \$600,000 in external funding to meet its projected cash requirements for completing its construction projects.
9. TCWC states that lenders typically require a security interest in the utility's property.
10. TCWC does not have adequate internal resources to complete these projects at this time.
11. The inability to retain a loan would substantially delay TCWC's completion of these projects.
12. TCWC must comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with this filing.
13. Res. No. F-616 specifically exempts debt issues of \$20 million or less from the Competitive Bidding Rule.
14. 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.
15. 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.

16. 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.

17. On July 2, 2010, TCWC served AL 43 on its adjacent utilities pursuant to the requirements of GO 96-B.

18. Notice of the filing appeared on the Commission's Daily Calendar on July 9, 2010. No protests have been received.

19. The fee for this financing authority as required by § 1904(b) is \$1,200.

CONCLUSIONS OF LAW

1. TCWC's proposed plant construction costs are not reasonably chargeable to expenses or income.

2. TCWC's proposed loan to finance the construction of TCWC's facilities and improve or maintain its service are for proper purposes.

3. It is in the public interest to authorize TCWC to enter into a loan agreement for \$600,000 to finance the construction discussed herein.

4. It is not adverse to the public interest to allow TCWC to encumber its assets to secure the proposed loan.

5. The loan authorization herein is not a finding of the reasonableness of TCWC'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. TCWC 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 2 of this Resolution.

7. TCWC's proposed loan is exempt from the Competitive Bidding Rule.

8. It is TCWC's responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken using the debt authorized herein.

9. Consistent with § 824, TCWC 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. TCWC should provide the Commission with the monthly reports required by GO 24-B.

THEREFORE, IT IS ORDERED that:

1. Tahoe Cedars Water Company is authorized to borrow \$600,000 from financial institutions and encumber its assets to secure the debt.

2. Tahoe Cedars Water Company is authorized to apply the proceeds of the loan to finance the construction of a new water well to meet its source capacity requirements, the replacement, installation, and upgrade of approximately 66,497 feet of water mains with diameter size ranging from 1-1/2" to 8", as shown in Table 2 of this Resolution, and to pay the costs of issuance for the debt authorized herein.

3. Tahoe Cedars Water Company shall not use the proceeds authorized by this order to begin construction of capital projects until Tahoe Cedars Water Company has obtained any required environmental review under the California Environmental Quality Act.

4. Tahoe Cedars Water Company's debt authorized herein is exempt from the Commission's Competitive Bidding Rule.

5. Tahoe Cedars 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. Tahoe Cedars 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, Tahoe Cedars 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 Tahoe Cedars Water Company pays \$1,200 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.