

CALIFORNIA PUBLIC UTILITIES COMMISSION
Water Division

STANDARD PRACTICE FOR WATER
COMPANY FILINGS FOR FINANCING

Standard Practice U-13-W

San Francisco, California
September 2000

**STANDARD PRACTICE FOR WATER COMPANY
FILINGS FOR FINANCING**

A – OVERVIEW AND BACKGROUND

1. All Commission-regulated utilities must get Commission permission before issuing bonds or borrowing money when the period of indebtedness exceeds 12 months.¹ The Commission can specify what the money is to be used for.² Class C and Class D water utilities may seek approval of loans of more than 12 months duration through the advice letter process.³ The purpose of this Standard Practice is to inform the utility how to file for advice letter approval, instruct the assigned analyst as to how to evaluate such filings and how to evaluate formal applications for financing approval, and instruct the utility on how to collect and process principal and interest surcharge revenues if the loan provides for a customer surcharge for payback. Other than filing an advice letter rather than a formal application, the Class C or D utility should follow all of the other requirements of PU Code § 816-830, General Order 96-B, and Rule 33 of the Rules of Practice and Procedure (Appendix G).
2. All other companies must file an application for financing approval, which is processed by the Water Division, which prepares an Examiner's decision for Commission consideration.
3. Principal and interest surcharges were first authorized by Decision (D.)88973, June 13, 1978 which authorized Quincy Water Company to borrow \$550,000 from the Safe Drinking Water Bond Act program. The surcharge was applied to the quantity rate for metered service.

B – SUBMITTAL, DATA REQUIRED

4. The utility submits a draft advice letter (Appendix A) by sending two copies to the Commission's Water Division. The Tariff Unit enters the data in the Proposal/Advice Letter system on Oracle. The Branch's Analyst checks form and content of the draft; the amount and use of proceeds; the terms and conditions of the borrowing; and completeness of the financial data and documentary evidences attached to the Filing.
5. The analyst notifies the utility by telephone or by Supplemental Data Request (See Appendix B, Supplemental Data Request form) of any deficiencies or additional requirements. Otherwise, the utility is notified to submit the application to the Docket Office or the advice letter to the Tariff Unit.
6. Once the submittal is received, reviewed, filed and assigned, the analyst does the following:

¹ Section 818 of the Public Utilities Code

² Section 823(a) of the Public Utilities Code

³ Decision 93-11-066, November 23, 1993, Stipulation Section II., A., 3.

- a. Sets up case file. Indicates Application or Advice Letter number, name of utility and the authority requested. Attaches checklist (see Appendix C) to case file and fills in dates or events as applicable.
- b. Reviews and verifies completeness of the Filing. Notifies utility by telephone or by Supplemental Data Request of any deficiencies or additional requirements.
- c. Verifies through the Case Information System the date when the Application appeared on the Commission's Daily Calendar and indicates such date on the checklist. Advice Letters are logged in the PAL database and the calendar date can be verified through PAL or the Branch's printed copy of the Daily Calendar. There is a 30-day period from the time the Filing appears on the Daily Calendar in which parties are allowed to file protests to an application (the nature of which may prompt Branch to turn the Filing over to the ALJ Division for hearing). There is a 20-day period for advice letters. At times the utility may file an amendment to the filing. Another 30-day or 20-day period starts from the time the amendment appears on the Daily Calendar for parties to file protests.

7. Some utilities may provide the Water Division with a Draft Decision (for an Application) to shorten the processing time. The Analyst checks the style, contents and verbiage of the Draft Decision and performs the necessary additions/deletions or edits. The requested authorization and information contained in the Draft should be consistent with the Application. Resolutions for advice letter filings are always prepared by the analyst (Decisions and Resolutions are collectively referred to as Orders).

8. The water or sewer system utility needs to provide public notice (including dollar amount and percentage of the expected revenue impact) of the debt. Individual notice to customers is required. For Safe Drinking Water State Revolving Fund (SDWSRF) loans, the utility must also arrange a mutually agreeable date for a public meeting with its customers to explain the plant improvements program and proposed rate surcharge. Representatives from the Department of Health Services and/or the Department of Water Resources may attend this meeting to help the company explain this loan program to the customers. A notice must be published in a local newspaper advising the customers that the loan advice letter or application has been filed and announcing the date of the public meeting, and a notice of the meeting must also be sent to each customer at least 15 days prior to the public meeting.

9. If the request is for a SDWSRF loan, the utility must file the information listed in the attached Safe Drinking Water State Revolving Fund Loan Supplemental Data (Appendix D). This information is required before an advice letter for a SDWSRF loan can be processed. SDWSRF loans should also include a vacant lot fee⁴ on all unimproved lots in the service territory. The fee applies the monthly surcharge to all vacant lots and requires that the owner of the lot pay the accrued surcharge before being provided water service. The maximum accrued fees should be \$2,000. The utility should add this lien to the title of each unimproved lot.

⁴ In the Matter of the Application of Porter dba Grizzly Park Water Company, 1987 Cal. PUC LEXIS 382 *25.

C - ANALYSIS

10. General Analysis

- a. What authority is the utility asking for? Issue debt (type, features)? Equity (Common Stock, Preferred Stock)? Or a combination of Debt and Equity?
- b. For Safe Drinking Water State Revolving Fund (SDWSRF) is rate base treatment requested? (These loans can be serviced by surcharge only). Does the utility have loan confirmation from the Department of Health Services?
- c. Does the authority include execution of indentures? Encumbrance of utility property?
- d. Under what Section of the PU Code does the authority fall?
- e. For what purpose(s) will the utility use the proceeds obtained from issuing the debt? Is it in compliance with § 817 of the PU Code? If it is a surcharge loan and includes repayment of existing loans, you must make sure that all of the existing loan proceeds have already been invested in plant.
- f. Is the utility asking for an exemption from the Commission's Competitive Bidding Rule? Review requirements under Resolution F-616. The Competitive Bidding Rule is only applicable to utilities with bonds ratings of "A" or higher and applies only to issues of first mortgage bonds and debentures \$200 million or less. Issuance of bonds and debentures of \$20 million and below is exempt from the Competitive Bidding Rule.

11. Financial analysis is a process of selection, relation, and evaluation. The first step is to select from the total information available about a utility the information relevant to the decision under consideration. The second step is to arrange the information in a way that will bring out significant relationships. The final step is to study these relationships and interpret the results.

12. For Financing Orders, the Division does not conduct an in-depth analysis of the financial condition of the utility. The Analyst reviews the utility's (a) total operating revenues and net income, (b) 3-years construction budget, (c) 3-years cash requirements forecast, and (d) the recorded and pro-forma capital ratios. In addition, the Analyst verifies the amount and reasonableness of any proposed surcharge rates. Construction expenditures, cash requirements forecasts, capital structures, and other analytical reviews are normally conducted in general rate case or cost-of-capital proceedings.

13. It is important to assure that any loans that are being repaid by a principal and interest surcharge are being used only for new facilities. Using any of these funds to pay off existing loans which have not been invested in used-and-useful facilities is improper and should not be approved.

D – WRITING THE ORDER

14. The first part of the Order itemizes the item(s) that the Commission is authorizing or denying. At times, a partial approval and denial may occur. The Summary indicates the Section(s) of the PU Code whereby authority is given. In addition, the date when the filing appeared on the Commission's Daily Calendar, and protests, if any, are mentioned in this section of the Order. See Appendix E for sample format of the first and second pages of a Decision and Resolution.

15. All pages of the order should have the word "DRAFT" centered on the header; starting with page two to the end of the Order. The Analyst should indicate on the left-hand corner of the header the Filing number, the Branch, and the Analyst's initials.

16. Protests. The merits of the protests, if any, together with the response of the utility are addressed in this section. This section declares the validity and reasonableness of the protest or dismisses same as without merit or case.

17. The Background includes a statement that the utility is under the jurisdiction of the Commission, a brief description of the services provided by the utility, and its area of operation. This section includes a presentation of the utility's operating revenues, net income, and a summarized balance sheet.

18. Description of Debt. A detailed description of the debt or equity to be issued. This section includes a discussion of the terms and conditions of each issue of debt or equity and any features to enhance the securities. The Analyst indicates any necessary restriction or limitation with regard to the issue of the securities.

19. The closing paragraph of this Section should read: "We place (utility) on notice that the reasonableness of the cost of money resulting from its issue of securities/indebtedness are subject to scrutiny in subsequent ratemaking proceedings and may result in disallowance, if determined imprudent."

20. Exemption from Competitive Bidding. Indicate in this Section whether the utility is requesting, and can be granted an exemption from the Competitive Bidding Rule. Justify any exemption by citing the appropriate provision on Resolution F-616. The Analyst indicates recommended action on any additional request by utility for further modification of the Competitive Bidding Rule.

21. Capital Ratios. This Section presents the utility's capital structure (recorded and pro-forma) with the events creating the changes in equity, long-term debt, and short-term debt. The closing paragraph of this Section may read, "Capital structures are normally reviewed in general rate case or cost of capital proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes."

22. Construction Budget. The utility's 3-yr. projected construction expenditures appear in this Section. The closing paragraph of this Section may read, "Branch advises us that (utility's)

proposed construction budget for (year) raises no questions that should dissuade us from giving favorable consideration to the financing requested in this filing. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.”

23. Cash Requirements Forecast. The utility’s 3-yr. cash requirements forecast is presented here. The following are the components (as applicable):

- a. Funds needed for construction expenditures
- b. Funds used or required for cash dividends
- c. Maturity of long-term debt
- d. Maturity of other debt
- e. Preferred stock redemption
- f. Estimated cash available from internal source
- g. Additional new fund required from outside source

The closing paragraph of this Section may read, “Branch has reviewed the Filing and has concluded that the proposed issue of debt (specify) is reasonable and that the authority should be granted. The Commission has considered Branch’s recommendations and, finding them reasonable, will adopt them as stated above.”

24. Use of Proceeds. See PU Code 817 for compliance on the uses of proceeds. If acceptable, the closing paragraph of this Section may read, “Branch has reviewed the proposed debt and has concluded that the utility’s proposed financing is necessary to provide funds for the purposes set forth in the Filing. Furthermore, Branch has no objection to the proposed debt.”

25. SB 960 compliance. This applies to an Application only. The utility requests that the Application be exempt from the Commission’s Rules 6 – 6.5. By Resolution at each Commission business meeting, the Commission preliminarily determines for each Application the category of the proceeding and the need for hearing. The following is added in the Order:

“In Resolution ALJ (number) dated (date), the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Resolution (number).

26. PU CODE § 311(g). For both Application and Advice Letter filing, the following is indicated in the Order:

“This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU code 311(g)(2) or 311(g)(3) as pertaining to water companies, the otherwise applicable 30-day period for public review and comment is being waived.”

27. Findings of Fact. The following may be used in this Section:

- a. The utility is subject to the jurisdiction of this Commission.
- b. The utility has need for external funds for the purposes set forth in the Filing.
- c. The proposed securities would be for proper purposes and not adverse to the public interest.
- d. The money, property, or labor to be procured or paid for by the debt issue is reasonably required for the purposes specified in the Filing.
- e. Authorizing the utility to encumber its properties as security for its debt issue is not adverse to the public interest.
- f. The utility has declared that the proposed debt issue is not subject to environmental regulations.
- g. The utility's request and reasons for exemption from the Competitive Bidding Rule are within the purview of the modified and prevailing conditions of enforcement and exemptions defined in Resolution F-616.
- h. The authorization for debt enhancement and features are not adverse to the public interest and tools to improve the terms and conditions of the debt issue are for the benefit of the ratepayers.
- i. The Commission does not by this decision determine that the utility's construction budget, cash requirements forecast, and capital ratios are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case proceedings.
- j. Calendar of (date), and no protests have been received. There is no known opposition to the Filing and no reason to delay granting the authority requested.

28. Conclusions of Law (applicable only to Decisions). The following may be used in this Section:

- a. A public hearing is not necessary.
- b. The filing should be granted to the extent set forth in the order which follows.
- c. The proposed debt issue, including features and conditions of the offering, is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. The Proceeds from the debt may not be charged to operating expense or income.
- d. The utility should pay the fee in accordance with PU Code § 1904(b).
- e. The utility has previously paid the fee of (amount) determined in accordance with PU Code § 1904(b).
- f. The following order should be effective on the date of signature.

29. Ordering Paragraphs. The following may be used in this Section:

- a. The authority being granted, i.e., type of debt, guarantee, indenture, period of authorization (if requested), and total aggregate principal amount.
- b. Reports or documents the Branch may request the utility for copies. Generally, Branch expects the utility to response within thirty days from receipt of request.
- c. On or before the 25th day of each month, the utility shall file the reports required by General Order Series 24.
- d. Authorization for exemption from the requirements of the Commission's Competitive bidding Rule, if applicable.
- e. The Filing is granted as set forth above.
- f. The authority granted by this order to issue debt is granted as set forth above (if no fee is required) or the authority granted by this order will become effective when the utility pays the fee set by PU Code § 1904(b).
- g. The Filing is closed.

E – MODIFICATION TO AN ORDER

30. For filing requesting modification of an Order, a Supplemental Opinion shall be prepared by the analyst. After presenting the Background, a section entitled “Modification Sought” will follow.

F - FEE

31. Pursuant to PU Code § 1904, the Commission is to charge and collect a fee for any authorization to issue stocks, bonds, notes, or other evidences of indebtedness. See PU Code for computation.

32. The Code states that no fee need be paid on such portion of any such issue as 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 been paid to the Commission. This fee exemption is only applicable to prospective or projected refunding or refinancing of debt securities. Credit shall not be given to a utility company for past refunding, refinancing or retirement that is stated in an Application. In other words, if the refunding or retirement of debt securities occurred prior to the Filing or is not covered under an existing authorization, then the utility cannot at a later date or under separate Application claim for fee exemption.

33. The Analyst shall check Central Files' copy of the Application to determine if a fee has been paid or not. If the payment was sent simultaneously with the Filing, the fee payment and date are indicated and stamp by Fiscal Office on the first page of the Original Application kept by Central Files.

G - REVIEW

34. A Blue Routing Sheet properly filled out is attached to the Draft Decision or a Green Routing Sheet properly filled out is attached to the Draft Resolution, together with a Pink Transmittal Sheet as required by PU Code 311(g). The Draft Order is forwarded to the Branch Chief, Division Director, and Chief, ALJ Division, for comments and approval. The Analyst makes the changes to the Draft Order, as required.

35. Once the Draft Order is signed off by the ALJ Division, a Consent Agenda number (CA#) is procured from the Process Office. The CA# and the Commission meeting date is inserted on the upper right-hand corner of the first page of the Draft Order. Process Office requires 50 copies of the Draft Order (1 copy together with the original blue sheet or green sheet and pink transmittal sheet; 5 copies with a copy of the blue or green sheet (no pink required) for the five Commissioner's Office; and 44 copies (all fifty copies 3-hole punched, collated and stapled).

36. In the event that minor changes are made to the Draft Order after the copies have been distributed by Process Office, the Analyst makes the correction; places a bar on the right-hand side of the page where the correction occurs; inserts an "asterisk" after his or her initials on the header of the corrected page; and prepares a Notice of Non-Substantive Change. If a second non-substantive change is necessary prior to the Commission meeting, the same procedure applies and two asterisks are included in the header of the page of the second correction. In each event, seventy copies are made, with 30 copies distributed by the Branch to the distribution list, 20 to Process Office, and twenty copies (no Notice of Non-Substantive Change, not 3-hole punched) to the Escutia Package.

37. Once the Order is passed by the Commission and Process Office assigns a decision number, the Analyst prepares a clean copy (deleting the CA#, the Commission meeting date, and the word Draft from the header of the Order) indicating the decision number and the Commission meeting date on the upper left-hand corner of the first page of the Order, the Commission meeting date on the last page of the Order, and the names of the Commissioners who were present during the meeting on the last page of the Order. Process Office generally requires fifty copies (not 3-hole punched) of the Order. If an Order requires a PU Code § 1904 fee, the copies are mailed out only upon payment, with the last page of the Order stamped "Paid, Amount, Date" by Fiscal Office.

38. The case file, all workpapers, and five copies of the Order is kept for five years on file.

K – SERVICING THE LOAN

39. Once the loan is approved the utility will file a compliance advice letter incorporating the surcharge amounts into the tariffs.

- a. The loan repayment surcharge is separately identified on customers' bills.
- b. The surcharge remains effective until funds sufficient to repay the loan principal, interest and debt reserve have been accumulated, or until further order of the Commission.
- c. The utility plant financed through the surcharge is permanently excluded from rate base for ratemaking purposes.

- d. The utility establishes and maintains a separate bank account in which all deposits of the loan proceeds and disbursements are made.
- e. The utility deposits all rate surcharges collected with a fiscal agent into a trust account approved by the lender. Such deposits are made within 30 days after the surcharges are collected from customers.
- f. The utility establishes and maintains a separate balancing account in which all billed surcharge revenue and interest is recorded. The balancing account is reduced by payment of principal and interest to the lender and any fees to the trust account.
- g. The utility files with the Commission a copy of the loan agreement within 15 days of execution.
- h. The surcharge needs to be adjusted periodically to reflect changes in the number of connections. Such changes in future rates should be accomplished by normal advice letter procedures.
- i. Once a year the utility sends a comparative report to the Director of the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of service fee collected, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account. The utility also indicates in the report if an advice letter will be forthcoming to reflect changes in the surcharge rate.
- j. The surcharge to repay the loan lasts as long as necessary to repay the loan. The surcharge is never commingled with other utility charges.
- k. A service fee is charged to customers requesting future services to currently undeveloped lots and will be the accumulated total of the monthly surcharge as applied to the property being furnished water service from the initial effective date of the surcharge to the date of connection. The maximum service fee will be \$2,000. The service fee will be due and payable upon connection of water service to the property. Thereafter the customer shall pay the applicable tariff rates plus the monthly surcharge. Notice of this fee is added to the utility's request for water service form.
- l. Surcharge revenue is applied only to the cost of servicing the loan.

40. For surcharge loans, the lender should not provide any funds to the utility except upon presentation by the utility of a valid invoice.

L – CEQA REQUIREMENTS

I. Public Utilities Code

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:

For the acquisition of property.

For the construction, completion, extension, or improvement of its facilities.

For the improvement or maintenance of service.

For the discharge or lawful refunding of its obligations.

For the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, for use within the service area of the public utility.

For the reorganization or readjustment of its indebtedness or capitalization upon a merger, consolidation, or other reorganization.

For the retirement of or in exchange for one or more outstanding stocks or stock certificates or other evidence of interest or ownership of such public utility, or bonds, notes, or other evidence of indebtedness of such public utility, with or without the payment of cash.

For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.”

Section 818. No public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it 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, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that, except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

II. Commission Rules of Practice and Procedure

Rule 17.1 applies to CEQA projects for which Commission approval is required by law, except projects for which an application must be filed with the California Energy Resources Conservation and Development Commission pursuant to Public Resources Code Section 255005 .

⁵ The State Energy Resources Conservation and Development Commission shall have the exclusive power to certify all sites and related facilities in the state, whether a new site and related facility or a change or addition to an existing

Rule 17.2 Motion for Determination of Applicability of CEQA. Any party may file in any proceeding before the Commission a motion for determination of whether the proceeding involves a project subject to or exempt from the California Environmental Quality Act of 1970, Public Resources Code, Sections 21000 et seq., and Rule 17.1.

Rule 33 states that an application to issue stock or evidences of indebtedness, or to assume liabilities shall contain:

The amount and kind of stock, or other evidence of interest or ownership, which applicant desires to issue, and if preferred, the nature and extent of the preference; the amount of bonds, notes or other evidences of indebtedness which applicant desires to issue, with terms, rate of interest, and whether and how to be secured; the amount and description of the indebtedness which applicant desires to assume.

(b) The purposes for which the securities are to be issued.

III. Environmental Impact Report

An environmental impact report (EIR) is an informational document, which shall be considered by every public agency prior to its approval or disapproval of a project. The purpose of an EIR is to provide public agencies and the public in general with detailed information about the effect, which a proposed project is likely to have on the environment; to list ways in which the significant effects of such a project might be minimized; and to indicate alternatives to such a project.

facility. The issuance of a certificate by the commission shall be in lieu of any permit, certificate, or similar document required by any state, local or regional agency, or federal agency to the extent permitted by federal law, for such use of the site and related facilities, and shall supersede any applicable statute, ordinance, or regulation of any state, local, or regional agency, or federal agency to the extent permitted by federal law. No construction of any facility or modification of any existing facility shall be commenced without first obtaining certification for any such site and related facility by the commission, as prescribed in this division.

Project

“Project” means an activity which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, and which is any of the following:

An activity directly undertaken by any public agency.

An activity undertaken by a person which is supported, in whole or in part, through contracts, grants, subsidies, loans, or other forms of assistance from one or more public agencies.

An activity that involves the issuance to a person of a lease, permit, license, certificate, or other entitlement for use by one or more public agencies.

Whether a particular activity constitutes a project is a question of law.

Significant Effect on the Environment

“Significant effect on the environment” means a substantial, or potentially substantial, adverse change in the environment⁶.

Lead Agency

“Lead agency” means the public agency, which has the principal responsibility for carrying out or approving a project, which may have a significant effect upon the environment.

Responsible Agency

“Responsible agency” means a public agency, other than the lead agency, which has responsibility for carrying out or approving a project.

⁶ In mandate proceedings to compel a local agency formation commission (LAFCO) to set aside a “sphere of influence” determination as to a city, the trial court properly ruled that the determination was not a project subject to the California Environmental Quality Act. The sphere decision could not have a “significant effect on the environment,” defined in Pub. Resources Code, Section 21068, as “a change in environment.” The fact spheres of influence are recognized as important factors in annexations does not compel the conclusion that they are per se “projects” subject to the act. The determination was exempt under guidelines defining a “project” as “the whole of an action which has a potential for resulting in a physical change in the environment, directly or ultimately.”

Person

“Person” includes any person, firm, association, organization, partnership, business, trust, corporation, limited liability company, company, district, county, city and county, city, town, the state, and any of the agencies and political subdivisions of such entities.

Environment

“Environment” means the physical conditions, which exist within the area, which will be affected by a proposed project, including land, air, water, minerals, flora, fauna, noise, objects of historic or aesthetic significance.

Tiering or Tier

“Tiering or Tier” means the coverage of general matters and environmental effects in an environmental impact report prepared for a policy, plan, program or ordinance followed by narrower or site-specific environmental impact reports which incorporate by reference the discussion in any prior environmental impact report and which concentrate on the environmental effects which (a) are capable of being mitigated, or (b) were not analyzed as significant effects on the environment in the prior environmental impact report.

Feasible

“Feasible” means capable of being accomplished in a successful manner within a reasonable period of time, taking into account economic, environmental, social, and technological factors.

Public Agency

“Public Agency” includes any state agency, board, or commission, any county, city and county, city, regional agency, public district, redevelopment agency, or other political subdivision.

Negative Declaration

“Negative Declaration” is a written statement briefly describing the reasons that a proposed project will not have a significant effect on the environment and does not require the preparation of an environmental impact report.

Mitigated Negative Declaration

“Mitigated Negative Declaration” is a negative declaration prepared for a project when the initial study has identified potentially significant effects on the environment, but (1) revisions in the project plans or proposals made by, or agreed to by, the applicant before the proposed negative declaration and initial study are released for public review would avoid the effects or mitigate the effects to a point where clearly no significant effect on the environment would occur, and (2) there is no substantial evidence in light of the whole record before the public agency that the project, as revised, may have a significant effect on the environment.

A project may have a significant effect on the environment if any of the following conditions exist:

A proposed project has the potential to degrade the quality of the environment, curtail the range of the environment, or to achieve short-term, to the disadvantage of long-term, environmental goals.

The possible effects of a project are individually limited but cumulatively considerable. This means that the incremental effects of an individual project are considerable when viewed in connection with the effects of past projects, the effects of other current projects, and the effects of probable future projects.

The environmental effects of a project will cause substantial adverse effects on human beings, either directly or indirectly.

IV. Use of Proceeds Under PU Code Section 817 Subject to CEQA Requirements

1. Acquisition of property.

Construction of new facilities.

Modification of existing facilities.

Expansion and extension of service in an unincorporated service area.

Any activity having a potential for resulting in a physical change in the environment.

V. Construction of plant, system or any extension requiring CPCN and subject to CEQA Requirements

Pursuant to P.U. Code Section 1001, “No railroad corporation whose railroad is operated primarily by electric energy, street railroad corporation, gas corporation, electrical corporation, telegraph corporation, telephone corporation, water corporation, or sewer system corporation shall begin the construction of a street railroad, or of a line, plant, or system or of any extension thereof, without having first obtained from the commission a certificate that the present or future public convenience and necessity require or will require such construction.

PU Code Section 1002.(a) states that “The commission, as a basis for granting any certificate pursuant to Section 1001 shall give consideration to the following factors:

Community values

Recreational and park areas

Historical and aesthetic values

Influence on environment, except that in the case of any line, plant, or system or extension thereof located in another state which will be subject to environmental impact review pursuant to the National Environmental Policy Act of 1960 (Chapter 55 (commencing with Section 4321) of Title 42 of the United States Code) or similar state laws in the other state, the commission shall not consider influence on the environment unless any emissions or discharges therefrom would have a significant influence on the environment of this state.”

VI. Specific Funding Programs or Projects Exempted from CEQA Requirements

1. Restoration and repair of existing structures when they have deteriorated or are damaged, in order to meet current standards of public health and safety under the rules of the Commission or other public authority, where the damage is not substantial and did not result from an environmental hazard.

Operation, repair, maintenance, or minor alteration of existing facilities used to convey or distribute electric power, natural gas, water, or other substance.

Replacement or reconstruction, including reconditioning of existing utility structures and facilities where the new structure or facility will be located on the same site as the replaced structure or facility and will have substantially the same purpose and capacity as the structure replaced⁷.

⁷ If the capacity of the replacement facilities and their construction are similar to those being replaced, then it is possible that the Drinking Water Program (DWP) can file a Notice of Exemption to comply with CEQA for regulated public water supply systems.

Commission decision-making activities which are intended to assure the maintenance, restoration, or enhancement of a natural resource, where procedures for the protection of the environment have been included.

Commission decision-making activities if they consist of action taken to assure the maintenance, restoration, enhancement, or protection of the environment, such as, in connection with the issuance of instructions or orders having to do with existing utility facilities, where procedures for the protection of the environment have been included. Construction activities are not included.

Commission activities, which consist of enforcing or revoking a lease, permit, certificate or other entitlement which activities, do not ordinarily involve significant effects on the environment.

VII. DWP's list of projects (mutual and investor owned systems) subject to CEQA requirements:

New facilities which may require a water supply permit or permit amendment.

Water system infrastructure improvements and expansion of capacity.

Additional surface water sources, treatment facilities, wells and well site facilities if additional source capacity is needed.

VIII. DWP's list of projects that may be exempt from CEQA documentation:

Addition, deletion, or modification of mechanical, electrical or hydraulic controls.

Maintenance, repair, replacement, or reconstruction to any water treatment process units.

Repair or replacement of water service connections, meters, or valves.

Replacement or reconstruction of existing water supply distribution lines, storage tanks, and reservoirs of substantially the same size.

Replacement or reconstruction of pump stations and related appurtenances or water wells of substantially the same capacity.

Construction of water supply and distribution lines of less than 16 inches in diameter and related appurtenances.

Construction of any water storage tanks and reservoirs of less than 100,000-gallon capacity.

Any minor alterations to highway crossings for water supply and distribution lines.

IX. The Commission is the lead agency for the following stationary utility projects:

1. Electric transmission lines and generation plants under General Order No. 131-B, over which the Energy Resources Conservation and Development Commission does not have primary jurisdiction.

2. Gas storage facilities and major gas transmission lines.

3. New and noncontiguous utility facility projects (independent of subdivisions).

4. Radiotelephone utility facilities.

5. Telephone service area expansions.

6. Proceedings directly related to new construction of utility facilities.

7. Applications for exemption from under grounding requirements, except where the electric or telephone distribution lines are incidental to a development project over which a city, county, or other political subdivision has the primary decision-making responsibility.

X. Proponent Environment Assessment (PEA)

The proponent of any project shall include with the application for such project a PEA.

If it can be seen with certainty that there is no possibility that the project in question may have a significant adverse effect on the environment, the project PEA should be limited to a statement of this conclusion and any additional explanation or information which may be necessary for an independent assessment of such issue by the Commission.

If it cannot be seen with certainty that there is no possibility that the project in question may have a significant adverse effect on the environment, the PEA shall include all information and studies required by the Commission Information and Criteria List (Government Code Sections 65940 through 65942) applicable to the project, and shall be submitted in the format specified in such list.

The PEA shall be filed as a separate exhibit accompanying the application or pleading.

A motion for determination of whether the proceeding involves a project subject to or exempt from CEQA and this rule may be made pursuant to Rule 17.2.

XI. Environmental Documents

The procedures for preparation of environmental documents required under CEQA and the Office of the Secretary for Resources, California Administrative Code Sections 15000 et seq. (EIR Guidelines), and the additional provisions of this rule follow:

Initial Study/Negative Declaration - this shall be completed and adopted within 105 days of the date on which the project application is accepted as complete.

Draft EIR - the PEA reviewed, corrected, amended and independently evaluated and analyzed by the staff may become the Commission's Draft EIR.

Final EIR – this shall be completed and certified within one year of the date on which the project application is accepted as complete.

Notice of Determination – indicates the determination of the agency, board, or commission whether the project will, or will not, have a significant effect on the environment and also indicates whether an environmental report has been prepared pursuant to CEQA's Section 21108.

Comments received and responses – are submitted together with any of the foregoing.

All environmental documents are to be circulated through the State Clearinghouse of the Governor's Office of Planning and Research (OPR).

XII. Receipt of Filing for Financing Authority

Where CEQA requirements are applicable, an application or advice letter cannot be considered to be complete unless it contains either: (1) Final environmental documentation; (2) a Schedule for CEQA and National Environmental Policy Act (NEPA)-like compliance; or (3) a completed Environmental Information Form (if the Commission will be the lead agency).

Those involving private water systems, the Department of Health Services (DHS) may become the lead agency under CEQA. But it is still possible that another agency such as the county planning department may be the lead agency. If the District is, unsure it should contact the Environmental Review Unit (ERU) and discuss the project situation. If it is determined that DHS will be the lead agency, the Division of Drinking Water and Environmental Management (Division or District) should assure that the applicant fills out the Environmental Information Form and submits it along with the application or as soon thereafter as possible.

When DHS is the lead agency under CEQA, the project proponent submits a completed "Water Supply Permit – Environmental Information Form" to the DWP. The form can be found on the Internet at the following DHS website address: http://www.dhs.ca.gov/ps/ddwem/SRF/environmentl_review.htm. If, based on this form, the ERU determines that the project is not exempt from CEQA, the project proponent then prepares and submits to the ERU the equivalent of an Initial Study, prepared pursuant to the current CEQA guidelines. If a checklist is used, all checklist answers must be explained. If the ERU determines that an EIR is required, the project proponent prepares and submits to the ERU an EIR, prepared pursuant to the current CEQA guidelines, in addition to the Initial Study (if one is prepared). Before project construction can begin, or a water supply permit issued, the ERU must circulate the documentation for review and either adopts a Negative Declaration or Certify a Final EIR. To assist in preparing an Initial Study or EIR that will be adequate for DWP's use, the project proponent may retain the services of a consultant.

If the capacity of any replacement facilities and their construction are similar to those being replaced, the DWP files a Notice of Exemption to comply with CEQA.

ERU provides environmental clearance for all projects (except planning studies).

XIII. Other Environmental Information

1. State Clearinghouse (916) 445-0613
U.S. Fish and Wildlife Service (FWS)
National Marine Fisheries Service (NMFS)

State Office of Historic Preservation or State Historic Preservation Officer
(SHPO)

Cultural Resources Officer (CRO) (916) 445-8780

Area of Potential Effects (APE)

National Register of Historic Places (NRHP)

Native American Heritage Commission (NAHC)

915 Capital Mall, Rm. 364, Sacramento, CA 95814

9. Governor's Office of Planning and Research

10. Local County Clerk

11. Department of Health Services

Division of Drinking Water and Environmental Management

Environmental Review Unit

601 North Seventh St. M.S.92

P.O. Box 942732

Sacramento, CA 94234-7320

XIV. Summary

A financing filing whose use of proceeds is for 1) acquisition of property, 2) construction of new facilities, 3) modification of existing facilities, 3) expansion and extension of service in an unincorporated service area, or 4) any activity having a potential for resulting in a physical change in the environment should be accompanied with or supplemented with a completed Environmental Information Form, a Notice of Determination, Notice of Exemption to Comply with CEQA, or the final environmental documentation. Once submitted, the application/advice letter will be processed.

If any of the above use of proceeds requires a Certificate of Public Convenience and Necessity (whereby the Commission is the environmental lead agency), the utility should indicate such fact in the financing filing. This filing still requires a completed Environmental Information Form. The following shall be reflected in the financing order:

Conclusion of Law

“This filing for financing approval does not require environmental review, but construction with the proceeds of this financing may.”

“Reviews by environmental agencies are appropriate to ensure compliance with all local, state, and federal requirements. The utility should inquire with the Environmental Protection Agency, the Office of Historic Preservation, U.S. Forest Service, U.S. Dept of Transportation, the Federal Emergency Management Agency, Natural Resources Conservation, Flight Standards Division, U.S. Army Corps of Engineers, the U.S. Fish & Wildlife Service, the California Department of Transportation, California Coastal Commission, California Department of Fish & Game, and the Air Resources Board for any potential environmental, historical or cultural impacts that may result from the construction of additional facilities.”

Ordering Paragraph

“To the extent that the funds would be used for the construction of new facilities, the utility should comply with any applicable environmental regulations for any capital improvement undertaken relative to this decision/resolution.”

**EXAMPLE OF A DRAFT ADVICE LETTER
SEEKING AUTHORITY FOR FINANCING**
(Size 8 1/2" x 11")

(Name of Utility)

Advice No. _____

Date _____

Public Utilities Commission of the State of California;

_____ hereby requests authority for the following financing, pursuant to Sections 816 and 851 to the California Public Utilities Code and Decision 93-11-066, General Order 96-A, and Rule 33 of the Rules of Practice and Procedure.

[Description for financing authority being sought.]

The proceeds of the loan will be used for the following purpose:

[PURPOSE]

The proceeds of this loan will not be used for operating expenses.

[For Safe Drinking Water State Revolving Fund (SDWSRF) loans: (Name of Company) proposes to establish a balancing account which would be credited with revenues collected through the proposed surcharge and any interest on deposits. The balancing account would be charged with payments of interest, trustee fees (if any), and principal on the loan. The surcharge would be adjusted, when authorized by a Commission resolution, to reflect changes in the number of connections and overages and/or shortages in the balancing account.]

This filing will not increase any rate or charge, cause the withdrawal of service or conflict with other schedules or rules [or if requesting a concurrent surcharge: This filing will increase rates after the execution of the loan, but will not cause the withdrawal of service nor conflict with other schedules or rules.] (Name of Water Company) hereby submits for filing the following changes in its tariff schedules:

Cal P.U.C.
Sheet No.

Title of Sheet

Canceling

[List]

It is desired that this filing become effective on [specify the desired effective date]. The effective date of the revised rate schedule (if any) would be the date of the execution of the loan, and would apply only to service rendered thereafter.

Appendix A

Anyone wishing to protest this filing may do so by letter or fax to the California Public Utilities Commission, Audit and Compliance Branch, 505 Van Ness Avenue, San Francisco, CA 94102. The protest must be received by the Commission no later than 20 days after the date of this filing. A copy shall also be mailed to the attention of the undersigned at [Name of Company], [water company's address]. There is no restriction on who may file a protest, but the protest must set forth specifically on the grounds on which it is based.

In compliance with Section III, Paragraph G of General Order 96-A, we are mailing a copy of this advice letter to the following utilities and/or interested parties:

[List]

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping open for public inspection at the Company the Advice Letter plainly stating the changes to be made and the time when the changes will take place.

[For SDWSRF loans: If this loan is approved, a copy of the loan contract with the State Department of Water Resources will be filed with the Commission as soon as it is available.]

[Name and Title of Utility Officer]

[Name of Utility]

cc: CPUC, SF - Attn: Chief, Audit and Compliance Branch

CALIFORNIA PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL DATA REQUEST

Small Water Company Advice Letter Filings for Financing

The Audit and Compliance Branch of the Water Division requests that each Class C and D water utility file the following supplemental information with each advice letter requesting authority for financing. This information will assist staff in analyzing the advice letters.

- A. Construction Authorization (including the decision or resolution number authorizing the construction), if any.
- B. Construction Budget, and if prior authorization for construction has not been acquired, a detailed justification for each budget item.
- C. When monies from the financing authority requested are to be used to refinance existing debt:
 1. A list of the debt to be refinanced, including:
 - a. Interest rates,
 - b. Balance Owed,
 - c. Current monthly payments
 2. Projected monthly payments after refinancing; and
 3. A list of all projected refinancing costs and fees.
- D. Cash Flow Statements using the format provided in Attachment A (must cover current year and at least one future year).
- E. When seeking financing for capital expenditures that have been made previously from moneys expended from income or other moneys in the treasury, include:
 1. Description of the construction or other capital expenditure;
 2. Source of funds that were used;
 3. Periods when the expenditures were made; and
 4. The reason the expenditure needs to be financed.
- F. An income statement for the most recent calendar year or twelve-month fiscal period.
- G. List of Assets and Loans (provide recorded data) using the format provided in Attachment B. Also list any shareholder loans and any amounts of owner or shareholder equity.

Appendix B

H. A letter from the water utility owner or president attesting that neither the water utility nor the owner nor any employee of the water utility has an ownership interest in the lender, or is involved in a partnership or joint venture with the lender.

I. A schedule showing the effect of the projected surcharge (if any), on a per month basis, for each type of customer.

J. The terms and conditions of the proposed loan. A dated copy of the public notice (including dollar amount and percentage of the expected rate impact of this debt). For less than 10% eventual rate impact, a legal notice is adequate. For more than 10%, individual notice to customers is required.

MONTHLY STATEMENT OF CASH INFLOW AND OUTFLOW

<u>Latest Recorded Year</u>			<u>Projected Year</u>					
Jan	Feb.....	Dec	Jan	Feb.....	Dec			
<u>Cash In:</u>								
Operating Gross Revenue			\$	\$	\$	\$	\$	\$
Sale of Equipment			\$	\$	\$	\$	\$	\$
Sale of Property			\$	\$	\$	\$	\$	\$
Proceeds from Approved Debt			\$	\$	\$	\$	\$	\$
Proceeds from Proposed Debt			\$	\$	\$	\$	\$	\$
CIAC			\$	\$	\$	\$	\$	\$
Advances			\$	\$	\$	\$	\$	\$
Facilities Fees			\$	\$	\$	\$	\$	\$
Connection Fees			\$	\$	\$	\$	\$	\$
Other			\$	\$	\$	\$	\$	\$
TOTAL		\$	\$	\$	\$	\$	\$	\$
<u>Cash Out:</u>								
Operating Expenses (1)			\$	\$	\$	\$	\$	\$
Purchase of Equipment			\$	\$	\$	\$	\$	\$
Purchase of Property			\$	\$	\$	\$	\$	\$
Payment of Debt (2)			\$	\$	\$	\$	\$	\$
Loan #1			\$	\$	\$	\$	\$	\$
Loan #2			\$	\$	\$	\$	\$	\$
Loan #3, etc.			\$	\$	\$	\$	\$	\$
Refunds of Advances			\$	\$	\$	\$	\$	\$
Other			\$	\$	\$	\$	\$	\$
TOTAL			\$	\$	\$	\$	\$	\$

Notes:

(1) Do not include in these operating expenses depreciation or any other expense where there is only an accounting entry and no direct outlay of cash.

(2) Include both the payment of principal and interest here.

ASSETS AND LIABILITIES

Total Assets

\$

Debt:

Balance Owed Loan #1

\$

Balance Owed Loan #2

\$

Balance Owed Loan #3

\$

Total Liabilities

\$

Check List – Financing Authorization

Name of Utility: _____

Application/Advice Letter Number: _____

1. Date Application Filed: _____
2. Date Application Received by Analyst: _____
3. Date Calendared: _____
4. ALJ Res. Number/Date Filed: _____
5. Protests Received: _____
6. Date Data Request sent to Company: _____
7. Date Reply from Company Received: _____
8. Commission Meeting Date: _____
9. Process Deadline: _____
10. Agenda Review Date: _____
11. Date Protest Period Ends: _____

SAFE DRINKING WATER STATE REVOLVING FUND SUPPLEMENTAL DATA REQUEST

- A. A report on water quality and subsequent recommendation on improvements to the water system by the state Department of Health Services (DHS).
- B. Completed "Supplemental Data Sheet Current Count of Active and Inactive Services and Related Data" (SDWBA Form 2).
- C. A copy of the "Commitment Letter" from DWR indicating that the loan amount has been set aside for the utility.
- D. A copy of the Amended or Revised Water Permit issued by DHS together with the accompanying DHS Engineering Report describing water system deficiencies and proposed improvements.
- E. A copy of a Negative Declaration under the California Environmental Quality Act, prepared by DHS.
- F. A schedule of present rates.
- G. A proposed surcharge schedule to amortize the loan, interest and debt reserve.
- H. A map showing the present water system and the SDWBA project improvements.
- I. A description of the planned improvements and an explanation of why they are needed.
- J. A balance sheet (provide recorded data) and an income statement for the most recent calendar year to twelve month fiscal period.
- K. Construction budget, cash requirements forecast, capital ratios (See Appendix F).

SUPPLEMENTAL DATA SHEET
CURRENT COUNT OF ACTIVE AND INACTIVE SERVICES AND RELATED DATA

As of _____ / _____ / _____, _____

Month Day Year Name of Company

Was serving _____ Metered Customers; _____ Flat Rate Customers;
_____ Inactive Metered Services; and _____ Inactive Flat Rate
Services, all segregated as follows:

METERED SERVICES

<u>Meter Size</u>	<u>No. of Active Meters</u>	<u>No. of Inactive Meters</u>
-------------------	-----------------------------	-------------------------------

5/8" x 3/4"

3/4"

1"

1 1/2"

2"

Other Size

Total

FLAT RATE SERVICES

3/4"

1"

1 1/2" (None)

2"

Other Size

Total

Combined Grand Total _____

**DRAFT
WATER/ABC**

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
)	
)	
)	Application 00-09-0XX
)	(Filed September 19, 2000)
)	
)	
)	
)	

OPINION

Summary of Decision

This decision grants (Name of Utility) the authority requested in Application (A.) 00-07-018 (Application).

Pursuant to Rules 33 and 34 of the Commission’s Rules of Practice and Procedure and Public Utilities (PU) Code §§ 816 through 830 and pursuant to Rules 33-34 of this Commission, Utility requests authority for the following:

Notice of the filing of the Application appeared on the Commission’s Daily Calendar of September 26, 2000. No protests have been received.

BACKGROUND

Utility, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. Utility provides water service to customers in portions of the counties of

...

We note herein that on March 16, 2000, Cal-Am and Citizens Utilities Company California (Citizens CA) filed their Joint Application No. 00-05-015 seeking, inter alia, authority for Cal-Am to acquire all of the California water utility assets of Citizens CA.

On May 16, 2000, Cal-Am and SJW Corp., San Jose Water Company (SJ Water), and SJW Acquisition Corp. filed their Joint Application No. 00-05-016 seeking, inter alia, authority for Cal-Am to merge with SJ Water.

Some of the issues to be decided in each of the proposed Joint Applications overlap with this financing Application, particularly those that relate to the financing that Cal-Am will require to accomplish the respective Citizens CA asset acquisition and SJ Water merger.

Pursuant to Rule 73 of the Commission's rules of Practice and Procedure, Cal-Am requests the Commission to take official notice of the above matters in this proceeding.

For the period ending May 31, 2000, Cal-Am reports it generated total operating revenues of \$25,630,384 and net income of \$1,588,462, as shown in Exhibit 2 attached to the Application.

DRAFT
WATER/ABC

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-XXXX
SEPTEMBER 20, 2000**

R E S O L U T I O N

RESOLUTION W-XXXX. UTILITY NAME. REQUEST TO BORROW FUNDS UNDER THE SAFE DRINKING WATER STATE REVOLVING FUND (SDWSRF), TO ADD A SURCHARGE TO WATER RATES TO REPAY THE PRINCIPAL AND INTEREST, AND TO PROVIDE A SINKING FUND RESERVE EQUAL TO ONE YEAR'S DEBT SERVICE.

By Advice Letter No. XX Filed on August 30, 2000.

SUMMARY

This Resolution grants in part and denies in part the authority requested by Utility in Advice Letter (AL) No. XX.

Utility, a Class C water utility, requests authority to enter into a loan agreement with the Department of Water Resources (DWR) to borrow a total of under the SDWSRF; to encumber its assets in connection with the loan; and to place in effect a surcharge on existing water rates for the purpose of amortizing the loan and accumulating a sinking fund reserve to equal to one year's debt service.

This financing authority grants Utility a (\$amount) Phase I loan with DWR.

Resolution W-XXXX
Utility Name AL XX/ABC

DRAFT

PARTIAL DENIAL OF ADVICE LETTER

Utility's request to borrow (\$ amount) under the SDWSRF is denied without prejudice.

BACKGROUND

Utility, is centered within ...

_____ **WATER COMPANY**

U-XX-W

CONSTRUCTION BUDGET COMPARISONS 1998 - 2000

<u>Construction Item</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Land	5,000	5,000	5,000
Source of Supply	86,200	100,000	120,000
Reservoirs and Tanks	364,800	400,000	450,000
Pump stations & Equip.	2,148,300	1,350,000	1,400,000
Distribution System	13,766,000	15,143,500	16,528,000
Equipment	1,831,400	2,100,000	1,500,000
Structures & Non Specifics	<u>1,513,300</u>	<u>1,280,000</u>	<u>1,210,000</u>
Subtotal \$19,715,000	20,378,500	21,213,000	
Cost of Retiring	<u>600,000</u>	<u>630,000</u>	<u>662,000</u>
Total 20,315,000	21,008,500	21,875,000	

_____ **WATER COMPANY**

U-XX-W

STATEMENT OF CASH REQUIREMENTS FOR YEARS 1998 AND 1999

<u>1998</u>	<u>1999</u>	
Funds Used or Required for Construction Expenditures	\$1,150,342	\$0
Maturity of Long-Term Debt:		
Bonds, Notes, Debentures, etc.	12,000	12,000
Short-Term Debt as of Apr. 1, 1998	118,233	30,000
 Total	 1,637,575	 42,000
Less: Estimated Cash Available from Internal Sources	 78,393	 81,109
Additional New Funds Required from Outside Sources	 <u>\$1,559,181</u>	 <u>(\$39,109)</u>

WATER COMPANY

U-XX-W

CAPITAL RATIOS
 AS OF March 31, 1998

<u>Recorded</u>	<u>%ProForma</u>		<u>%</u>	
Long-Term Debt	\$2,923,803	72.4%	\$4,506,512	80.2%
Short-Term Debt	118,233	2.9%	118,233	2.1%
Total Debt	<u>3,042,036</u>	<u>75.4%</u>	<u>4,624,745</u>	<u>82.3%</u>
Preferred Stock	0	0.0%	0.00	0.0%
Common Equity	993,624	24.6	933.624	17.7%
Total	<u>\$4,035,660</u>	<u>100.0%</u>	<u>\$5,618,369</u>	<u>100.0%</u>

CALIFORNIA PUBLIC UTILITIES COMMISSION

FROM THE RULES OF PRACTICE AND PROCEDURE

Article 8. Applications to Issue Stock Or Evidences of Indebtedness, or to Assume Liabilities

33. (Rule 33) Contents. This article applies to applications under Sections 816-830 of the Public Utilities Code. In addition ... such rules shall contain the following data, either in the body of the application or in exhibits attached thereto:

(a) A general description of applicant's property and its field of operation, the original cost of its property and equipment, individually or by class, and the cost thereof to applicant and the depreciation and amortization reserves applicable to such property and equipment, individually or by class. If it is impossible to state original cost, the facts creating such impossibility shall be stated.

(b) The amount of ... bonds, notes or other evidences of indebtedness which applicant desires to issue, with terms, rate of interest, and whether and how to be secured; the amount and description of the indebtedness which applicant desires to assume.

(c) The purposes for which the securities are to be issued;

(1) If for property acquisition, a detailed description thereof, the consideration to be paid therefor, and the method of arriving at the amount.

(2) If for construction, completion, extension or improvement of facilities, a description thereof in reasonable detail, the cost or estimated cost thereof, and the reason or necessity for the expenditures.

(3) If for improvement of service, a statement of the character of the improvements proposed, or if for maintenance of service, a statement of the reasons why service should be maintained from capital.

(4) If for discharge or refunding of obligations, a full description of the obligations to be discharged or refunded, including the character, principal amount, discount or premium applicable thereto, date of incurrence, date of maturity, rate of interest, and other material facts concerning such obligations, together with a statement showing the purposes for which such obligations had been incurred, or the proceeds expended, and the Commission's decisions, if any, authorizing the incurrence of such obligations.

(5) If for the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, a statement of the reason or necessity for such financing.

(6) If for ... readjustment of indebtedness or capitalization, or for the retirement or exchange of securities, a full description of the indebtedness or capitalization to be readjusted or exchanged, a proforma balance sheet, if possible, giving the effect to such ... readjustment; and a statement of the reason or necessity for the transaction.

Appendix G

- (7) If for reimbursement of moneys actually expended from income, or from any other moneys in the treasury, a general description of the expenditures for which reimbursement is sought, the source of such expenditures, the periods during which such expenditures were made, and the reason or necessity for such reimbursement.
- (d) A complete description of the obligation or liability to be assumed by applicant as guarantor, indorser, surety or otherwise, the consideration to be received by applicant, and the reason or necessity for such action...
- (e) Other pertinent facts. The filing of additional information may be required by the Commission in particular instances.

**STANDARD PARAGRAPHS FOR PROPOSED DECISIONS
WATER COMPANY LOAN REQUESTS**

BACKGROUND

For the year ended _____, utility reported it generated total operating revenues of \$ _____ and net income of \$ _____, as shown in Attachment X to the Application.

Utility's balance sheet at _____, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Total Assets	
Capitalization and Liabilities	
Total Capitalization	
<u>Current Liabilities</u>	
Deferred Credits	
Total Capitalization and Liabilities	

DEBT SECURITIES

Within 15 days after awarding the contract for the sale of debt securities by competitive bidding, utility shall file a written report with the Water Division showing for each bid received, the name of the bidder, the price, the interest rate and the costs of money to utility based on the price and interest rate.

If debt securities are sold by means of a public offering, utility shall file with the Water Division three copies of the final prospectus pertaining to the debt securities, as soon as practicable, after the prospectus is available.

Within 15 days after the issuance and sale of any series of debt securities by means of negotiated underwritten public offerings or negotiated private placements, including commercial bank borrowings, in either the domestic or foreign markets, utility shall file with the Water Division a report showing why the resulting interest rate and cost of money were the most advantageous to utility and its ratepayers.

PREFERRED OR COMMON STOCK

Within 15 days of issuing Preferred and/or Preference Stock which contains adjustable dividend rates, utility shall furnish to the Water Division a report analyzing all costs associated with the issuance of Preferred and/or Preference Stock with adjustable dividend rates in comparison to a projection of “all-in-cost” without the adjustable dividend rates.

Within 45 days of issuing Preferred and/or Preference Stock with adjustable dividend rates, utility shall provide the Water Division with complete copies of any and all associated documentation.

If utility elects to terminate a contract in which it agrees to issue Preferred and/or Preference Stock with adjustable dividend rates before the consummation of the contract or the other party(s) terminates the contract, all costs associated with the termination shall be subject to review in utility’s next cost of capital proceeding.

Issuances of Preferred and/or Preference Stock which contain adjustable dividend rates shall not exceed more than ____% of utility’s total Preferred/Preference Stock outstanding at any one time.

The number of shares outstanding, the total par (stated) value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of the utility's stock or property, nor does it indicate the amounts to be included in ratesetting proceedings.

The utility and its stockholders are placed on notice that the Commission does not regard the number of shares outstanding, the total par value of the shares, or the exchange offerings as determining the utility's allowable return on plant investment. Our authorization is not a finding of the value of the utility's stock or property, nor does it indicate the amount to be included in ratemaking proceedings.

INTEREST RATE SWAP AGREEMENTS

Within 15 days of entering into a Swap, utility shall furnish to the Water Division a report analyzing the Swap including all costs associated with the Swap in comparison to a projection of "all-in-cost" without a Swap.

Within 45 days of entering into a Swap, utility shall provide the Water Division with a complete copy of the executed agreement and all associated documentation.

Utility shall separately report all interest income and/or expenses arising from all Swaps in all monthly and annual financial reports to the Commission.

Utility shall submit a semi-annual report to the Water Division showing all Swap receipts and payments. This report shall only be filed for periods when a Swap is outstanding.

If utility elects to terminate the Swap before the original maturity or the Swap partner terminates the Swap, all costs associated with the termination shall be subject to review in utility's next cost of capital proceeding.

Swaps shall not exceed the outstanding amount of its floating interest rate long-term debt obligations.

CONSTRUCTION BUDGET

The construction budget proposed for 200X, 200X, and 200X raises no questions that should dissuade us from giving favorable consideration to the financing requested in this Application. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

CASH REQUIREMENTS FORECAST

The utility's forecasts for 200X through 200X indicate that internally generated funds will provide approximately \$_____ or XX.X% of its total cash requirements of \$_____.

CAPITAL STRUCTURE

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

or

The utility's ratesetting matters are normally reviewed during its Performance Based Ratemaking filings. We make no finding in this decision of the reasonableness of the utility's projected capital budget and capital ratios.

EXEMPTION FROM COMPETITIVE BIDDING

Exhibit A to Commission Resolution F-616 dated October 1, 1986, states, "Securities privately placed with specific lenders and bank term loans obviously may be negotiated.... Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule."

or

The Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher. Utility has informed staff by letter dated _____ that it has not been rated by any rating company.

USE OF PROCEEDS

We have reviewed utility's proposed use of proceeds and have determined that it is for proper purposes and is not adverse to the public interest. In accordance with PU Code § 818 and § 823(d), we will approve utility's intended use of proceeds (including repayment of short-term debt) from the proposed issue and sale of securities.

Utility is placed on notice by this decision that the proceeds from the financing transaction cannot be charged to operating expenses or income. We also remind utility to comply with the provisions of PU Code § 817 for use of proceeds for general corporate purposes.

CONCLUSIONS OF LAW

Utility should pay the fee determined in accordance with PU Code § 1904.

or

Utility should pay the fee in accordance with PU Code 1904(b). The fee computation should take into account the fee exemption for the refunding of outstanding indebtedness on which a fee has already been paid.

or

Utility has previously paid the fee of \$_____ determined in accordance with PU Code 1904 and in proportion to its California operating revenues.

ORDER

On or before the 25th day of each month, utility shall file the reports required by General Order Series 24.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

On or after the effective date of this order, but before _____, for the purposes specified, transferee may issue an evidence of indebtedness in principal not exceeding \$_____, (and may execute and deliver an encumbering document). This (these) document(s) shall be substantially the same as that (those) attached to the application.

On or after the effective date of this order, but before _____, for the purposes specified, transferee may issue up to _____ shares of common stock with par (stated) value of \$_____ per share.

Utility shall maintain and, within thirty days from request, provide the Water Division any or all of the following:

1. The price, interest rate and other terms pertaining to its issuance of Debt Securities.
2. Copies of the indentures and supplemental indentures setting forth, among other things, the aggregate principal amount, interest rate, conversion factors, redemption and sinking fund requirements and the maturity date of issues of bonds and debentures.
3. Copies of the agreements setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of any series of notes.

FINANCING FEE

The authority granted by this order to issue an evidence of indebtedness (and to execute and deliver an encumbering document) will become effective when the issuer pays \$_____, set by PU Code § 1904(b). In all other respects this order becomes effective 30 days from today.

or

The authority granted by this order shall become effective when utility pays \$_____, the fee set forth by PU Code Code § 1904.

State Funded Loans

The utility is authorized in this Decision to enter into a loan agreement with _____ for the \$ _____ loan and to institute a surcharge to customers to repay the loan with the following conditions:

1. To ensure adequate accountability of the transactions related to loan construction funds advanced by _____ to the utility, Applicant should deposit all such funds into a separate trust bank account. All disbursements of such _____ loan funds should be made from this trust bank account.
2. Applicant shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue. The balancing account shall be reduced by payment of principal and interest to the _____. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by the utility.
3. To assure repayment of the loan, Applicant shall deposit all rate surcharges collected with a fiscal agent approved by _____. Such deposits shall be made within 30 days after the surcharges are collected from customers.
4. The utility plant financed through the surcharge shall be separately identified and be permanently excluded from rate base for ratemaking purposes.
5. On or before _____, and yearly thereafter, Applicant shall send a comparative report to the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of service fee collected, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account.
6. Changes in the surcharge rate shall be through the normal advice letter procedure.
7. The surcharge to repay the loan should last as long as necessary to repay the loan. The surcharge should not be commingled with other utility charges.

8. A service fee will be chargeable to customers requesting future services to currently undeveloped lots and will be the accumulated total of the monthly surcharge as applied to the property being furnished water service from the initial effective date of the surcharge to the date of connection. The maximum service fee will be \$_____. The service fee will be due and payable upon connection of water service to the property. Thereafter the customer shall pay the applicable tariff rates plus the monthly surcharge.
9. As a condition of the surcharge rate granted herein, Applicant shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.
10. Applicant shall file with the Water Division a copy of the loan agreement within 15 days of execution.

It is appropriate to emphasize that the surcharge thus authorized will cover only the cost of the loan incurred to finance the improvements and additions. It will not preclude any future rate increase requests to recover rising costs of repair, materials, wages, property taxes, power bills, or other operating expenses that may be incurred in the future.

PU Code Section 828

No provision of this part, and no act done or performed under or in connection therewith, shall obligate the State to pay or guarantee, in any manner whatsoever, any stock or stock certificate or other evidence of interest or ownership, or bond, note, or other evidence of indebtedness, authorized, issued, or executed under the provisions of this part.

Notes:

Securities which the Commission authorizes are not guaranteed to be profitable, but must take their place with other securities, the Commission merely endeavoring to see that all possible efforts are made to safeguard them.

It should be clearly understood that in giving its consent to the issuance of securities, the incumbrance of property, the amendment or modification of existing securities and incumbrances and kindred matters, the Commission does not pass upon the sufficiency or legality of the proceedings which may have been taken or which may be contemplated by applicant under the laws of this State other than the Public Utilities Act, the Commission only determines whether convenience and necessity will be subserved by the grant of the application and the terms and conditions, if any, necessary to this end.

Although articles of incorporation may provide that holders of preferred stock shall be paid a specified cumulative dividend, and that such dividend be paid before any dividend shall be paid to holders of common stock, neither such articles nor any action taken by the Commission in authorizing an issuance of stock guarantees the payment of dividends on the preferred stock.

Appendix I

Financing Tools & Alternatives for Funding Infrastructure to Ensure Water Quality and Reliability

I. Internally Generated Funds

A. Retained Earnings

1. Net Income retained by company after payment of dividends, plus non-cash expenses, such as Depreciation, Deferred Taxes, and Amortization.

II. Externally Generated Funds – This includes Long-Term Debt, Short-Term Debt, Preferred Stock, Common Stock, Contributions, Advances, Main Extension (Rule 15), Government Loans (Safe Drinking Water State Revolving Fund), Government Grants (Proposition 50), and Private Activity Bonds

A. Long-Term Debt

1. Issued by Bank, Insurance Company, or Private Party. Issuance size of a water utility offering is normally not large enough for a public offering.
2. The cost of long-term debt consists of interest and issuance expenses (such as legal fees, internal administrative costs, and lenders fees).
3. Long-term debt is callable (can be paid off early) if a predetermined fee is paid.
4. Unlike a home mortgage, long-term debt is paid at the end of the term of the loan, though sometimes a Sinking Fund is required.
 - a. Sinking Fund - The utility must make regular payments to pay down the balance of the debt.
5. The debt can be Secured by assets of the company or Unsecured.
6. Terms of long-term debt can vary from 5 to 30 years (Length of loan)
7. The interest rate charged is normally a Fixed Rate of Interest.
8. Bond Ratings, such as Standard & Poor's or Moody's drives the Cost and Terms of borrowing. If the utility's debt is not rated, the cost of the loan depends on the financial condition of the company as well as current and forecasted interest rates and the current state of the economy.
9. Lowest Risk Component of the Capital Structure Components.
10. Covenant Requirements of the lender may include coverage or capital structure tests (may require maintenance of a particular capital structure or level of interest coverage) or restrictions on acquiring new long-term debt.

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B. Short-Term Debt

1. Short-term debt is normally acquired from a bank.
2. Long-term debt is costly and the minimum amount of an issue of long-term debt is about \$5 million, so a company will issue short-term debt in smaller amounts for several years to cover capital investments in each of those years until the amount of debt is large enough to issue one big long-term debt issue.
3. Short-term debt can also consist of a Line of Credit with Bank
 - a. Similar to a home equity line of credit
4. Term of short-term debt is usually less than 12 months.
5. Usually not secured by assets of the company, though a compensating balance may be required.
 - a. Compensating Balance - Deposit a certain amount of money in bank that loan is with as security.
6. Interest Rate is usually Variable, and tied to the Prime Rate or the Federal Funds Rate.
7. Utility may have to pay fees for having money available or for portion of money not used, such as commitment fees or unused fees.

C. Preferred Stock

1. Contractual Agreement between utility and shareholder.
2. Preferred Stock has a Fixed Dividend Rate.
3. Usually Long Maturity.
4. Dividend Payment Preference over Common Stock.
5. Normally has no Voting Rights.
6. Medium Risk Position in Capital Structure.

D. Common Stock

1. Investors Buy Shares on the stock market or directly from the utility.
2. Common Stock shareholder has the Right to vote for Board of Directors and major business decisions (such as mergers with and acquisitions of other co's).
3. No Contractual Right to Dividends.
4. Liquidity – Can dispose of easily in stock market, no contractual holding period.
5. Highest Risk Position in Capital Structure, so highest cost of capital structure components.

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E. Contributions

1. Consists of contributions or donations of services, cash, or property from governmental agencies, individuals, or others (can be developers) for construction of water utility plant.
2. These funds are not repaid.
3. No interest is charged on these funds.
4. The contributed asset (be it an asset that is purchased with contributed cash or a contributed piece of property) is not included in rate base, so does not earn a return.

F. Advances

1. Advances of funds (from developers and others) for construction of utility plant that is repaid either in whole or in part.

G. Main Extension (Rule 15)

1. Funds are contributed by individual customers or advanced by developers to extend service from existing facilities of utility to location customer requires service.
2. Contributions by individual customers are only refunded if future new customers access utility service from the extension originally paid for by the individual customer.
3. Advances to developers are refundable.

H. Government Loans (Safe Drinking Water State Revolving Fund - SDWSRF)

1. SDWSRF loans are low-interest loans provided in part from a Federal Capitalization Grant for the Drinking Water State Revolving Fund (California).
2. In addition to receiving authorization from the CPUC to issue this debt, the utility must also receive approval from the Department of Health Services and the Department of Water Resources, who administer this program.
3. A separate surcharge is paid by utility customers for a SDWSRF loan.
 - a. The funds collected are kept separate from all other utility funds.

I. Government Grants (Proposition 50)

1. With the passage of Proposition 50 - The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002, investor-owned water utilities are able to apply, for the first time, for state grants.
 - a. Previously, state bond measures specifically denied grant eligibility for investor-owned water utilities, while Proposition 50 is silent on this issue.
 - b. The Department of Health Services acts as the primary agency administering the disposition of Proposition 50 grant funds for investor-owned utilities.
 - c. Commission Decision 06-03-015 authorized accounting rules that must be followed by all regulated water utilities accepting grants.
 - i Utility does not earn a return on the asset funded by state grant funds and does not receive a gain upon the sale of such asset.

J. Private Activity Bonds (PAB)

1. Administered by State Treasurer's Office – California Debt Limit Allocation Committee (Governor, Treasurer, Controller)

Appendix I

2. Consists of Federal money provided to each state for the issuance of tax-exempt bonds for purposes of supporting industrial development bonds, student loan bonds, and construction of low-income housing, as well as other infrastructure construction such as water and wastewater construction.
 - a. These PAB's may provide low-interest financing for water and wastewater infrastructure improvement in the future. This program is not currently authorized for use in California.
 - b. Basis for program are in numerous Tax Reform, Tax Relief, and Budget Acts.

K. Distribution System Improvement Charge (DSIC)

1. A DSIC is a separate surcharge on each customer's bill that would support the construction of a specific utility plant improvement.
 - a. This means that instead of collecting the funds for a piece of plant after it goes into service, a utility may collect the associated funds during construction.
 - b. The DSIC is currently not authorized for use in California.
2. A state may authorize the use of a DSIC in order to address the increasing need to replace aging infrastructure.

III. Balance of Debt and Equity Sources

- A. Balance Interests of Ratepayers & Shareholders by maintaining financial integrity of company while providing lowest rates to ratepayers and continuity of service.
 1. If 100% Debt, then Interest Rates would be Higher on New Issues, Company would be Highly Leveraged, Lenders may not Lend anymore, & Long-Term Health of Company may be Threatened.
 2. If 100% Equity, the Cost to the Ratepayer would be Too High for the Service Received.