

ORIGINAL

Decision 84 02 045 FEB 16 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE CALIFORNIA

In the matter of the application of)
Russian River Management Co., dba)
Rancho del Paradiso Water Co. to)
borrow funds under the Safe Drinking)
Water Bond Act, and to add a sur-)
charge to water rates to repay the)
principal and interest on such loan.)

Application 83-11-10
(Filed November 4, 1983)

O P I N I O N

Rancho Del Paradiso Water Co. (Paradiso) requests authority to borrow \$77,660 for 35 years, at an interest rate of 8.5% per annum under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code Section 13850 et seq.) and to add a surcharge to water rates to repay the principal and interest on such loan.

Notice of the filing appeared on the Commission's Daily calendar of November 8, 1983.

The utility provides water to 61 metered customers in the unincorporated community of Rancho del Paradiso Subdivision along Freezeout Road near Duncan's Mills, in Sonoma County.

All parties agree that the current system is inadequate in that the storage facilities are not large enough and deteriorated. Transmission mains are undersized and result in inadequate flow at the height of peak demand. Also a turbidimeter is needed to comply with EPA regulations.

The SDWBA states, among other things, that water utilities failing to meet California Health and Safety Code standards and which cannot otherwise finance necessary plant improvements may apply to the California Department of Water Resources (DWR) for low-interest rate loans. The California Department of Health Services (DHS) is required by SDWBA to analyze the public health issue, and determine plant improvements needed to meet water quality standards. DWR assesses financial need and acts as the lending agency and fiscal administrator. Before a loan is granted, the applicant must demonstrate to DWR its ability to repay the loan and show that it has taken steps to maximize water conservation. Under the provisions of Public Utilities (PU) Code Section 816 through 851, public utility water companies must obtain authorization from the Commission to enter into any long-term loan. PU Code Section 454 requires a public utility water company to obtain Commission approval for rate increases.

The DHS has reviewed the Paradise loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated October 13, 1983, DWR informed Paradise of its eligibility for a loan under the SDWBA.

The items of construction and estimated costs are detailed as follows:

<u>Description of Item</u>	<u>Estimated Cost</u>
1. Construct 2 15,000 gallon redwood or 3 10,000 gallon concrete storage tanks including site development and access road construction.	\$49,500
2. Install 4" Transmission line to central tank.	7,600
3. Install 1 Nephelometer for turbidity measurement	<u>900</u>
	\$58,000
Contingencies 10%	5,800
Engineering 15%	8,700
Administrative Exp. 5%	<u>2,900</u>
EST Project Costs	\$75,400
DWR 3% Admin. Fee	<u>2,260</u>
TOTAL LOAN AMOUNT	\$77,660

The proposed loan from DWR will provide for a 35-year repayment schedule with equal semiannual payments of principal and interest, at an interest rate of 8.5% per annum.

The revenue to meet the semiannual payments on the SDWBA loan will be obtained from surcharges on all metered services. The total amount of revenue from the proposed surcharge will exceed the loan repayments by approximately 10%. In accordance with DWR requirements, this over collection will be deposited with the fiscal agent to accumulate a reserve of two semiannual loan payments over a 10-year period. Earnings of the reserve fund, net of charges for the fiscal agent's services will be added to the fund. Net earnings of the reserve fund will be used, together with surcharge amounts collected from customers, to meet the semiannual loan payments. The Commission reserves the right to review the manner in which the fund is invested and to direct that a different fiscal agent acceptable to DWR be selected if appropriate.

Payments of interest, principal and reserve to amortize a \$77,660 35-year loan at 8.5% interest rate would be \$3,839 semi-annually, or \$7,678 per year. The amount of the surcharge would be based on the capacity of their meters. The surcharge for a 5/8 x 3/4 inch meter would be \$10.50 per month while the surcharge for a one inch meter would be \$26.25 per month.

SURCHARGE SCHEDULE

<u>Meter Size</u>	<u>Monthly Surcharge</u>
5/8" by 3/4"	\$10.50
3/4"	\$15.75
1"	\$26.25

Paradiso's present rates were authorized by Commission Resolution W 3026, effective October 27, 1982 pursuant to Advice Letter No. 18, dated October 26, 1982.

Estimated annual gross revenues for 1983 at present rates would be about \$10,500. The \$7,678 yearly increase under the SDWBA loan surcharge thus would increase Paradiso's revenues by approximately 72.78%.

On the evening of November 17, 1983, staff accountants from the Commission's Revenue Requirements Division conducted a public meeting in the Recreational Building at the Casini Camp Grounds near Duncan Mills to explain the SDWBA loan program. The meeting was attended by 21 customers of the utility. Also participating in the meeting were representatives of the Health Department of Sonoma County, the State Department of Health Services and a representative from the utility's consulting engineering firm. At the direction of the Commission, Paradiso sent a letter to all of its customers notifying them of the meeting. A notice was also published in the local newspaper.

In presenting the SDWBA loan program to the audience, each person was first given an outline of the panel's presentation.

After introductions, Philip Guidotti, President of Paradiso, narrated the history of the utility and recited in detail its current physical needs. Health Department representatives had a few remarks as to the minimum requirements of their office for the providers of water for human consumption. Paradiso's engineering representative answered questions from the audience relative to the merits of redwood vs. cement reservoirs and the comparative advantages of steel and polyvinyl chloride mains.

The customers agreed that there was a need to improve the storage capacity of the system and to increase the size of the mains to improve the flow capacity of water service at periods of high demand.

At the conclusion of the meeting customers were asked for their sentiments. By a show of hands, a clear majority expressed that better quality and consistent quantity water is needed and they were in favor of the SDWBA method of financing the project.

The CPUC representative reviewed the application and concluded that the proposed plant improvements will substantially improve service. The proposed SDWBA loan clearly is the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Paradiso to enter the proposed loan contract with DWR and to institute a surcharge on customers' bills to repay the loan.

The DWR has expressed a clear preference for the surcharge method of financing SDWBA loans, in lieu of rate base treatment, because the surcharge method provides greater security for its loans.

The Commission considered this issue of surcharge versus rate base in Application 57406 of Quincy Water Company ^{1/} wherein it concluded that the surcharge method, which requires a substantially lower initial increase in customer rates, is the most desirable method of financing SDWBA loans.

The SDWBA loan repayment surcharge should be separately identified on customers' bills. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes and the depreciation on this plant should be recorded in memorandum accounts for income tax purposes only.

By adopting this surcharge method of accounting, the Commission does not imply that SDWBA-financed plant should be treated any differently in event of condemnation by a public agency than if such plant had been included in the utility's rate base and had been financed in some other manner.

^{1/} Decision 88973, dated June 13, 1978 (Mimeo)

Paradiso should establish a balancing account to be credited with revenue collected through the surcharge and with investment tax credits arising from the plant reconstruction program as they are utilized. The balancing account should be charged with payments of interest and principal on the loan. The surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account. Such changes in future rates should be accomplished by normal advice letter procedures.

It is appropriate to emphasize that the surcharge authorized will cover only the cost of the loan incurred to finance the added plant, not any additional operating expenses that may be incurred. It will not preclude the likelihood of future rate increase requests to cover increases in costs of repair materials, wages, property taxes, power bills, or other operating expenses that may be incurred in the future.

In order for the surcharge to produce enough revenue to meet the initial payment on the SDWBA loan due in January 1985, it is necessary for Paradiso to place the surcharge in effect beginning July 1, 1984. This will enable the utility to meet the January 1, 1985 interest only payment and make the regular semiannual payment thereafter.

Findings of Fact

1. The proposed water system improvements are needed to produce a healthful, reliable water supply.

2. The SDWBA loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring \$77,660, which includes a 3% administrative charge by DWR.

3. The proposed borrowing is proper purposes. The money property, or labor to be procured or paid for by the issue of the loan authorized by this decision is reasonably required for the purposes specified. These purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

4. The proposed surcharge will generate approximately \$7,678 per year. Approximately \$6980 will be used to meet the loan payments. The remaining \$698, which is 10% of the loan payment, will be deposited with the fiscal agent in order to accumulate a reserve equal to two semiannual loan payments over a 10-year period.

5. The establishment of a reserve equal to two semiannual loan payments is required by DWR administrative regulations.

6. The rate surcharge will increase Paradiso's annual gross revenues by approximately \$7678 and increase the water rates by \$10.50 per month for customers with a 5/8 x 3/4 inch meter.

7. The rate surcharge which is established to repay the SDWBA loan should last as long as the loan. The surcharge would not be intermingled with other utility charges.

8. The utility plant financed through this SDWBA loan should be permanently excluded from rate base for ratemaking purposes.

9. Special accounting requirements are necessary to ensure that there are no intended windfalls to the utility's owners. Paradise should establish a balancing account to be credited with revenue collected through the surcharge, and with investment tax credits resulting from the plant construction, as they are used. The balancing account should be reduced by payments of principal and interest on the loan. The rate surcharge would be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

10. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are, for the future, unjust and unreasonable.

11. This surcharge should be placed in effect beginning July 1, 1984, to meet the initial payment due January 1, 1985.

Conclusions of Law

1. The application should be granted to the extent set forth in the following order, and the authorized rates are just and reasonable.
2. A formal hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Rancho del Paradiso Water Company (Paradiso) is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order 96-A. The effective date of the revised rate schedule shall be thirty days after the date of filing, and shall apply only to service rendered on or after July 1, 1984.
2. Paradiso is authorized to borrow \$77,660 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.
3. Paradiso shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and the value of investment tax credits on the plant, as used. The balancing account shall be reduced by payment of principal and interest to the State Department of Water Resources.

A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Paradiso.

4. As a condition of the rate increase granted, Paradiso shall be responsible for refunding or applying on behalf of its customers any surplus accrued in the balancing account when ordered by the Commission.

5. Plant financed through the Safe Drinking Water Bond Act (SDWBA) loan shall be permanently excluded from rate base for ratemaking purposes.

6. At the completion of the construction of the SDWBA plant improvements, Paradiso will file a report with the Commissions Revenue Requirements Division describing the actual work performed and the cost of each major portion of the project.

7. Annually, beginning with December 31, 1984, Paradiso will file with the Revenue Requirements Division a SDWBA status report in a manner prescribed by the Commission.

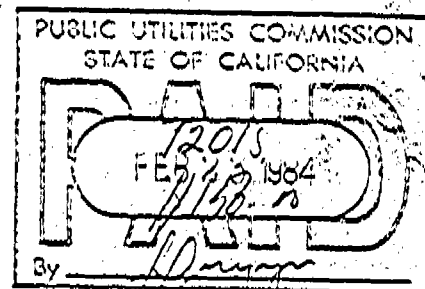
A.83-11-10 RR/TC/AV/WPSC

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when the issuer pays \$156., set by PU Code Section 1904 (b). In all other respects, this order becomes effective 30 days from today.

Dated FEB 16 1984 at San Francisco, California.

LEONARD M. GRIMES, JR.
President
FRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Victor Calvo,
being necessarily absent, did
not participate



I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

[Signature]
Eugene E. Bodovitz, Executive Director

APPENDIX A

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The unincorporated area known as Rancho del Paradiso Subdivision, near Duncan Mills, Sonoma County.

RATES

Annual Service Charge:	<u>Per Meter Per Year Charge</u>	<u>Per Meter Per Year Surcharge</u>	(N)
For 5/8 x 3/4-inch meter	\$108.00	\$126.00	 (N)
For 3/4-inch meter	162.00	189.00	
For 1-inch meter	270.00	315.00	

Quantity Rates:	<u>Per Meter Per Month</u>
First 200 cu.ft., per 100 cu.ft.	\$ 1.05
Over 200 cu.ft., per 100 cu.ft.	1.58

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision (a84 02 045).

(N)
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(N)

(a) Insert Decision Number in Application 83-11-10 before filing Tariff.

(END OF APPENDIX A)