

ORIGINAL

Decision ~~84 04 046~~ APR 18 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Bass Lake Water Company, a)
California corporation, for)
authority to borrow additional)
money under the Safe Drinking)
Water Bond Act, and to add a)
revised surcharge to water rates)
to repay the principal and)
interest on such loan.)

Application 83-12-61
(Filed December 29, 1983)

O P I N I O N

By Decision (D.) 91036, dated November 20, 1979, in Application (A.) 58435, the California Public Utilities Commission (Commission) authorized Bass Lake Water Company (Bass Lake) to borrow \$309,000 from the California Department of Water Resources (DWR) under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code 13850 et seq). The proceeds of the SDWBA loan were to be used to finance water system improvements. The terms of the 5-1/2% SDWBA loan provided for a 35-year repayment schedule with equal semi-annual payments of \$10,000 covering principal, interest, and reserve. Also, the Commission authorized Bass Lake to institute a surcharge on existing customer rates to repay the principal and interest on the loan.

Upon receiving the decision, Bass Lake immediately proceeded to prepare the SDWBA project plans and specifications.

The improvements were completed by the contractor in the fall of 1980 and upon final acceptance of the work a Notice of Completion was recorded in Madera County on December 18, 1980.

In a meeting with a representative from the Department of Health Services (DHS) on February 25, 1982, the completed project was discussed. DHS acknowledged that the majority of the customers' service was improved with increased pressure as a result of the improvements; however, they pointed out that areas of low-pressure still existed and some customers still experienced periodic outages.

We quote part of a letter from Department of Health Services dated March 2, 1982 over the signature of Richard L. Haberman, Senior Sanitary Engineer:

"The purpose of this letter is to confirm the items we discussed.....In addition to the low-pressure problems that exist a new water supply system water quality problem has been created by the high filtration rates that are presently being experienced at the existing filtration plant. Additional filter capacity must be provided to assure that proper treatment is provided before distribution. Also, during storm runoff periods the existing treatment facilities are not capable of meeting system demand due to high solids loading off of the filters. A treatment unit capable of solids removal ahead of filtration is needed to assure continuous operation during these periods:"

In the follow-up letter to Bass Lake dated March 2, 1982, DHS requested the utility apply for additional funds from the SDWBA program to finance the correction of the three problems identified in their letter, i.e., (1) "high filtration rates resulting in inadequate treatment, (2) customers with continuous pressure, (3) the need for solids removal ahead of filtration."

On November 26, 1982 DHS issued Water Supply Permit No. 82-057 which contains in detail the current system deficiencies and the proposed modifications to alleviate those deficiencies. Consequently, on February 3, 1983 Bass Lake made application to DWR for an additional \$245,000 loan to meet DHS requirements. This SDWBA loan is in addition to the original loan of \$309,000.

Bass Lake serves a total of 642 customers, including 580 residential customers, and has approximately 41 vacant or undeveloped parcels within its service area. A comparison of the original loan authorized by Decision 91036 dated November 20, 1979 in Application 58435 and the new loan authorized by DWR and requested by this application is set forth below:

<u>Loan Costs</u>	<u>D. 91036</u>	<u>This Application</u>
1. Amount of Loan	\$309,000	\$245,000
2. Interest Rate	5.5%	8.5%
3. Annual Debt Service	\$ 20,000	\$ 24,222
4. Term of Loan	35 years	35 years
5. Monthly surcharge	\$ 1,667	\$ 2,019

Customer Surcharge Schedule

<u>Size of Service</u> <u>Flat Rate or Metered</u>	<u>Annual Surcharge</u>	<u>Revised</u> <u>Annual Surcharge (1)</u>
5/8 x 3/4 inch	\$ 32.40	\$ 66.00
3/4 inch	32.40	66.00
1 inch	55.05	165.00
1-1/2 inch	106.85	330.00
2 inch	171.60	528.00
3 inch	250.00	990.00

- (1) This surcharge is in addition to regular charges for water service, which for a flat rate 3/4" residential customer is \$105 per year.

On December 29, 1983 Bass Lake filed this application requesting that D. 91036 be modified to permit Bass Lake to borrow the additional \$245,000 and to increase the surcharge rate to repay the SDWBA loan. Notice of filing for the revised loan appeared on the Commission's Daily Calendar of January 5, 1984.

At the direction of the Commission Bass Lake sent a notice to each customer on January 6, 1984, advising them of the need for the increased SDWBA loan and rate surcharge. The notice provided for customers wishing to express their comments to write to an assigned staff accountant. Four letters were received from customers. In summary, they objected to the increased surcharge due to the costs involved to finance the three additional problems ordered corrected by the California Department of Health Services.

The limited response from Bass Lake's 642 customers is interpreted as expressing the same sentiments which were expressed at the public meeting held on December 28, 1978. At the meeting, the majority of the customers were in favor of improving the water quality and using SDWBA financing for the improvement project.

Based on the reported 1982 annual operating revenues of \$55,591, the proposed annual surcharge of \$24,222 required to service the 8-1/2% accrued interest and to amortize the \$245,000 principal loan over 35 years would amount to an increase in the existing tariff rates for Bass Lake of approximately 43.57%.

The SDWBA loan is clearly the most feasible and economic method of financing the needed additional cost of the improvement project. The Commission, therefore, will authorize Bass Lake to enter into the proposed revised loan contract with DWR and institute the increased rate surcharge on customer bills to repay the loan.

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 the 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.

Bass Lake should maintain a balancing account to be credited with revenue collected through the surcharge and with interest earned on funds deposited with the fiscal agent. 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 numbers of connections and resulting overages or shortages in the balancing account. Such changes in future rates should be accomplished by normal advice letter procedure.

Although the rate of interest on Proposition 3 funds are stated to be 8-1/2% at this time, the true interest rate will be recalculated at the time all of the State of California Safe Drinking Water Bonds have been sold. At that time, an average cost for the entire SDWBA program will be recalculated. Bass Lake's loan interest rate will then be adjusted to the average. Utilities currently in the SDWBA program will, at that time, have the option to either:

1. Continue repaying the SDWBA loan at the contract rate, and extend the term until the equivalent of the adjusted interest rate has been paid; or
2. Increase the amount of semi-annual payments so that the adjusted interest rate will be paid by the end of the term of the contract for the SDWBA loan.

It is appropriate to emphasize that the revised rate surcharge authorized will cover only the cost of the loan incurred to finance the added plant. It will not preclude the likelihood of future rate increase requests to cover rising 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 on January 1, 1985, it is necessary for Bass Lake to place the revised surcharge in effect beginning October 1, 1984. This will enable the utility to meet the January 1, 1985 payment and make the regular semi-annual payments 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 an estimated \$245,000 including a 3% administrative charge by DWR.
3. The proposed borrowing is for proper purposes and 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, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

4. The proposed surcharge will generate approximately \$24,222 per year. Approximately \$22,022 will be used to meet the loan payment. The remaining \$2,202, which is approximately 10% of the loan payment, will remain deposited with the fiscal agent approved by DWR, in order to accumulate a reserve equal to two semi-annual loan payments over a 10-year periods. Deposits of the SDWBA surcharge should be made with the fiscal agent within 30 days after collection from customers.

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

6. The establishment of a separate bank account by Bass Lake is required to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

7. The rate surcharge discussed in this application will increase Bass Lake's annual gross revenues by approximately \$33.60 per year for an average residential customer with a 5/8-inch by 3/4-inch meter or 3/4-inch flat rate service. Water rates of residential or commercial customers with larger meter capacities would be increased proportionately.

8. The rate surcharge established to repay the SDWBA loan should last long as the loan. The surcharge payment should not be intermingled with other utility charges.

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

10. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Bass Lake should establish a balancing account to be credited with revenue collected through the surcharge, and with interest earned on funds deposited with the fiscal agent. The balancing account should be reduced by payments of principal and interest on the loan and with any charges for the services of the fiscal agent. The rate surcharge should be adjusted periodically to reflect charges in the number of connections and resulting overages or shortages in the balancing account.

11. 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.

12. This revised surcharge should be placed in effect beginning October 1, 1984 to meet the initial payment due on January 1, 1985.

Conclusions of Law

1. The petition should be granted to the extent set forth in the following order because the revised rates are just and reasonable.

2. A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Bass Lake Water Company (Bass Lake) is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be 30 days after the date of filing, and shall apply only to service rendered on or after October 1, 1984.

2. Bass Lake is authorized to borrow \$245,000 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Bass Lake shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made to the fiscal agent. The balancing account shall be reduced by payment of principal and interest to the California Department of Water Resources (DWR) and by any charges for the services of the fiscal agent. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Bass Lake.

4. As a condition of the rate increase granted, Bass Lake 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 California Safe Drinking Water Bond Act of 1976 (SDWBA) loan shall be permanently excluded from rate base for ratemaking purposes.

6. To assure the repayment of the loan, Bass Lake shall deposit all rate surcharge revenue collected with the fiscal agent approved by DWR. Such deposits shall be made within 30 days after the surcharge moneys are collected from the customers.

7. Bass Lake shall file with the Commission a copy of the loan contract with DWR, and a copy of the agreement with the fiscal agent, within 30 days after these documents have been executed.

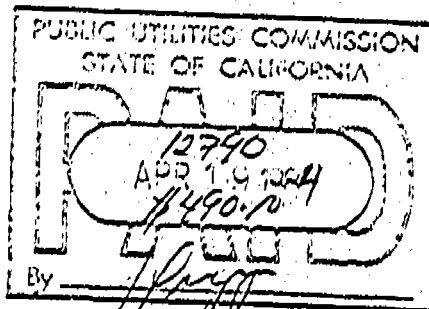
8. Bass Lake shall establish and maintain a separate bank account to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

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 \$490, set by PU Code Section 1904(b). In all other respects, this order becomes effective 30 days from today.

Dated APR 18 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
FRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners



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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director

Schedule No. 1A
Sheet 1 of 3

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered service furnished on an annual basis.

TERRITORY

The northwest shore of Bass Lake including the Falls and Bass Lake and vicinity, Madera County.

RATES

	<u>Per Meter Per Month</u>
Quantity Rate:	
First 300 cu.ft., per 100 cu.ft.....	0.32
Over 300 cu.f.t, per 100 cu.ft.....	.38

	<u>Per Meter Per Year</u>
Annual Service Charge:	
For 5/8 x 3/4-inch meter.....	78.00
For 3/4-inch meter.....	99.00
For 1-inch meter.....	138.00
For 1-1/2-inch meter.....	183.00
For 2-inch meter.....	243.00
For 3-inch meter.....	390.00

The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the quantity rate, for water used.

APPENDIX A

Schedule No. 1A
Sheet 2 of 3

ANNUAL METERED SERVICE

SURCHARGE

<u>Size of Meter</u>	<u>Surcharge Per Meter Per Year</u>	(N)
For 5/8 x 3/4-inch meter.....	\$ 66.00	
For 3/4-inch meter.....	66.00	
For 1-inch meter.....	165.00	
For 1-1/2 inch meter.....	330.00	
For 2-inch meter.....	528.00	
For 3-inch meter.....	990.00	

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular annual metered water bill. The total annual 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 No. _____ (a).

(a) Insert Decision Number In Application No. 83-12-61 before filing tariff. (N)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly or quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.

Schedule No. 1A
Sheet 3 of 3

ANNUAL METERED SERVICE

SPECIAL CONDITIONS (Continued)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

APPENDIX A

Schedule No. 2-RA
Sheet 1 of 3

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to residential flat rate service furnished on an annual basis.

TERRITORY

The northwest shore of Bass Lake including the Falls and Bass Lake and vicinity, Madera County.

RATES

	<u>Per Service Connection (N) Per Year</u>
1. For single-family residential unit including premises:	
3/4-inch service.....	\$105.00
1-inch service.....	141.00
a. For each additional single-family residential unit on the same premises and served from the same service connection.....	44.00

SURCHARGE

<u>Size of Service</u>	<u>Surcharge Per Service Connection (N) Per Year</u>
3/4-inch service.....	\$ 66.00
1-inch service.....	165.00
1-1/2-inch service.....	330.00
2-inch service.....	528.00
3-inch service.....	990.00

Schedule No. 2-RA
Sheet 2 of 3

ANNUAL RESIDENTIAL FLAT RATE SERVICE

FLAT RATE SERVICE SURCHARGE

(N)

NOTE: This surcharge is in addition to the regular charge of \$105.00 per 3/4-inch service connection, per year. The total annual 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 No. _____ (a).

(a) Insert Decision Number in Application No. 83-12-61 before filing tariff.

(N)

SPECIAL CONDITIONS

1. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. A non-permanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.

2. The opening bill for flat rate service shall be the established flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

Schedule No. 2-RA
Sheet 2 of 3

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Continued)

3. Meters may be installed at the option of the utility, (C)
and customers will be charged at the General Metered Service
Rate thereafter. (C)

(END OF APPENDIX A)