

EC/HA/WT

Decision 87 10 044

OCT 16 1987

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
COAST SPRINGS WATER COMPANY, INC., a)	APPLICATION 87-06-032
California Corporation, for Authority)	(Filed June 22, 1987)
to borrow Funds Under the Safe Drinking)	
Water Bond Act of 1976 and to Add a)	APPLICATION FOR
Surcharge to Water Rates to Repay)	SECOND SUPPLEMENTAL
Principal, Interest, and Reserves on)	ORDER
Such Loan. (CIS #U-130-W(D)))	

O P I N I O N

By Decision (D.) 85-03-061 dated March 20, 1985 and Decision (D.) 86-05-013 dated May 7, 1986, the California Public Utilities Commission (Commission) authorized Coast Springs Water Company, Inc. (Coast Springs) to borrow a total of \$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 loans were to be used to finance water system improvements. The terms of the SDWBA loan provided for a 35-year repayment schedule with equal semiannual payments of \$30,550, covering principal, interest and reserve at a rate of 8-1/2% per annum. Also, the Commission authorized Coast Springs to institute a surcharge on existing customer rates to repay the loan.

Upon receiving D.86-05-013 in May 1986, Coast Springs instructed the La Grow Corporation (La Grow), the approved construction contractor, to complete the SDWBA project. Shortly thereafter La Grow proposed that instead of repairing, painting and coating the existing 125,000 gallon storage tank that a new replacement tank could be substituted at no additional cost. Coast Springs accepted La Grow's offer with the provisions that the old tank could be left in place, to be used for stand-by fire protection and the new tank would be located at the site of the new water treatment facilities being installed as a part of the SDWBA project. Accordingly, in mid-summer 1986, Coast Springs applied to the Marin County Planning Department for a Coastal Permit to install a new tank at the site proposed for the new treatment facilities. The Planning Department did not grant a permit to Applicant until March 6, 1987. On April 10, 1987, Applicant received "A Notice of Decision" from the Planning Department advising that a Coastal Permit had been granted to Applicant for construction of the new tank, subject to ten (10) detailed "Conditions of Approval". Coast Springs has been advised by its engineers that the additional work required in order to satisfy the ten Conditions of Approval imposed by the Marin County Planning Department, will increase the cost of the

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project by \$41,491.46. After provision for permits and related expenses, it will be necessary for Coast Springs to borrow an additional \$45,500 for the project making the total amount which Coast Springs must borrow from DWR \$354,500.

Coast Springs serves a total of 217 customers. A comparison of the original loan authorized by D.85-03-061 and the first supplemental loan authorized by D.86-05-013 and the new second supplemental loan authorized by DWR is set forth:

	<u>Original Loan D.85-03-061</u>	<u>First Supplemental D.86-05-013</u>	<u>Second Supplemental</u>	<u>Increase</u>
Construction Cost	\$145,000	\$245,000	\$286,490	\$41,490
Engineering Fees	46,000	46,000	46,000	None
Coast Springs Cost	1,000	1,000	2,430	1,430
Legal Fees	<u>8,000</u>	<u>8,000</u>	<u>9,250</u>	<u>1,250</u>
Subtotal	\$200,000	\$300,000	\$344,370	44,170
DWR 3% Admin. Fees	<u>6,000</u>	<u>9,000</u>	<u>10,330</u>	<u>1,330</u>
Totals	<u>\$206,000</u>	<u>\$309,000</u>	<u>354,500</u>	<u>\$45,500</u>

<u>SDWBA Monthly Surcharge</u>			
<u>Meter Size</u>	<u>Present Surcharge</u>	<u>New Surcharge</u>	<u>Increase</u>
5/8" x 3/4"	\$11.45	\$13.35	1.90
3/4"	17.20	20.00	2.80
1"	28.65	33.40	4.75
1-1/2"	57.25	66.75	9.50
2"	91.60	106.80	15.20

<u>Up Front Payments</u>			
	<u>Present Surcharge</u>	<u>New Surcharge</u>	<u>Increase</u>
5/8" x 3/4"	\$1,395.00	\$1,619.00	224.00
3/4"	2,098.00	2,429.00	331.00
1"	3,480.00	4,048.00	568.00
1-1/2"	6,975.00	8,095.00	1,120.00
2"	11,160.00	12,952.00	1,792.00

On June 22, 1987, Coast Springs filed A.87-06-032 requesting that D.86-05-013 be modified to permit Coast Springs to borrow the additional \$45,500 and to increase the rate surcharge to repay the SDWBA loan. Notice of filing A.87-06-032 appeared in the Commissions Daily Calendar of June 26, 1987.

Coast Spring's present rates were authorized by this Commission's Decision 86-05-013 effective August 25, 1986, pursuant to Advice Letter 39, dated August 16, 1986.

The estimated annual gross revenues for 1987 at present rates will be \$80,975. The \$4,498 yearly increase under this additional SDWBA surcharge would increase Coast Spring's revenues by approximately 5.6%.

At the direction of the Commission, Coast Springs sent a notice to each of its customers on July 15, 1987, 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 or telephone the assigned staff accountant. Two letters and three telephone calls were received. The public notice sent to the customers indicated that the additional plant improvements were required by the Marin County Planning Department.

Two major areas of concern were contained in the letters and telephone calls from the customers. First, why has the project taken so long to complete? Secondly, will the customers be given a detailed breakdown of the project costs once it is completed? The two customers who wrote letters were contacted by telephone. All of the telephone conversations included a complete discussion of these questions. The relative lack of customer comments from other customers is interpreted as an expression that the project needs to be completed as quickly as possible.

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 Coast Springs 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 the 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.

Coast Springs 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 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 revise 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 payment on the SDWBA loan due in July 1988, it is necessary for Coast Springs to place the revised surcharge in effect on January 1, 1988. This will enable the utility to continue to meet the regular semiannual payments thereafter.

Findings of Fact

1. The proposed water system improvements are needed to produce a healthy 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 \$354,500 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 \$35,048 per year. Approximately \$31,862 will be used to meet the loan payment. The remaining \$3,186, 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 semiannual loan payments over a 10-year period. 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 semiannual loan payments is required by DWR administrative regulations.

6. The establishment of a separate bank account by Coast Springs, 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 will increase Coast Spring's annual gross revenues by approximately \$35,048 and increase the water rates by approximately \$1.90 per month for an average residential customer with larger meter capacities increased proportionately.

8. The rate surcharge established to repay the SDWBA loan should last as 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. Coast Springs 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 changes 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 surcharge should be placed in effect beginning January 1, 1988, to meet the initial payment due in July 1988.

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, Coast Springs Water Company, Inc. (Coast Springs) 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 five days after the date of filing, and shall apply only to service rendered on or after January 1, 1988.

2. Coast Springs is authorized to borrow \$354,500 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Coast Springs 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 Coast Springs.

4. As a condition of the rate increase granted, Coast Springs 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 repayment of the loan, Coast Springs shall deposit all rate surcharge and revenue collected with the fiscal agent approved by DWR. Such deposits shall be made within 30 days after the surcharge and up-front cash payment moneys are collected from the customers.

7. Coast Springs 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.

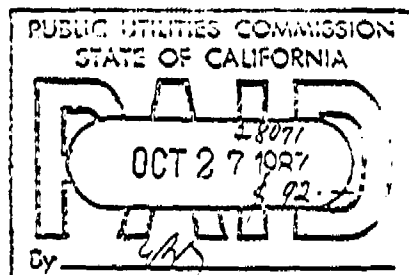
8. Coast Springs shall establish and maintain a separate bank account, to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

9. Customers who prefer to make the up-front cash payment in lieu of being billed monthly on the SDWBA rate surcharge will be required to pay according to the appropriate tariff, each in lump sum to Coast Springs. Every Coast Springs customer will be notified by the utility in advance of the option of either making the SDWBA rate surcharge payment or the up-front cash payment. Any customer up-front cash payment would be due within 30 days after Coast Springs files the revised rate schedules with the Commission per General Order 96-A. The up-front cash payment will apply only to those customers currently on hookup with Coast Springs.

10. The application is granted as set forth above.

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 \$92, set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated OCT 16 1987, at San Francisco, California.



STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
Commissioners

Commissioner John B. Ohanian, being necessarily absent, did not participate.

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

Victor Weiss
Victor Weiss, Executive Director

APPENDIX A

Schedule No. 1A

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ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Dillon Beach and vicinity, located approximately 4 miles west of Tomales, Marin County.

RATES

	Per Meter Per Month Surcharge	1 /
Service Surcharge:		
For 5/8 x 3/4-inch meter.....	\$ 13.35	(N)
3/4-inch meter.....	20.00	
1-inch meter.....	33.40	
1-1/2-inch meter.....	66.75	
2-inch meter.....	106.80	(N)

METERED SERVICE SURCHARGE 1 /

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 (a) .

(a) Insert Decision Number in (a) before filing tariff.

Those customers who prefer to make the one time, up front cash payment shall be required to pay:

Upfront Payments

5/8 x 3/4-inch meter.....	1,619.00	(N)
3/4-inch meter.....	2,429.00	
1-inch meter.....	4,028.00	
1-1/2-inch meter.....	8,095.00	
2-inch meter.....	12,952.00	(N)

APPENDIX A

Schedule No. 1A

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ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Dillon Beach and vicinity, located approximately 4 miles west of Tomales, Marin County.

RATES

<u>Annual Service Charge</u>	<u>Per Meter Per Year</u>
For 5/8 x 3/4-inch meter.....	\$168.60
For 3/4-inch meter.....	235.20
For 1-inch meter.....	352.20
For 1-1/2-inch meter.....	528.00
For 2-inch meter.....	807.00

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>
First 300 cu. ft., per 100 cu. ft.....	1.70
Over 300 cu. ft., per 100 cu. ft.....	2.55

APPENDIX A

Schedule No. 1A

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ANNUAL GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. 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.
2. The charges for quantities of water used may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative, monthly consumption basis.
3. 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.
4. 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 year of initial service, no refund of the initial annual charges shall be due the customer.