

Decision 91-03-065 March 22, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of )  
Richard T. Bakman dba Bakman Water )  
Co., Inc. to borrow funds under the )  
Safe Drinking Water Bond Act, and )  
to add a surcharge to water rates )  
to repay the principal and interest )  
on such loan. )

**ORIGINAL**  
Application 90-10-015  
(Filed October 2, 1990)  
Amendment to Application  
(Filed January 29, 1991)

OPINION

Summary of Decision

This decision grants Bakman Water Co., Inc. (Bakman) the authority requested in Application 90-10-015 as amended.

Bakman requests authority under §§816 through 830 and 851 of the California Public Utilities Code (PU Code), to enter into a loan contract with the State Department of Water Resources (DWR) to borrow funds under the Safe Drinking Water Bond Act (SDWBA) and to place in effect a surcharge on existing water rates for the purposes of amortizing the loan.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 17, 1990. Notice of the filing of the amended application appeared on the Commission's Daily Calendar of January 30, 1991. No protests have been received.

The utility provides water to approximately 1850 customers in southeast Fresno with water obtained from 11 active wells located throughout the system.

The recent change in the maximum contaminant level (MCL) for dibromochloropropane (DBCP) has caused three of the wells, (Nos. 9, 10 and 13) to be in violation of the standard. Bakman has also relied on the use of Well No. 8 which is now producing water not in compliance with the MCL for nitrates.

In its report to Bakman, the Department of Health Services (DHS) on December 13, 1989 recommended that the following actions be taken to rectify the situation:

". . . it is recommended that a permit amendment be granted to Bakman Water Company to drill two new wells to be added to their system at the locations noted, subject to the following provisions:

- 1) Before the new wells are placed into production, the water will be analyzed for general mineral, inorganic, radiological, Dibromochloropropane, Ethylene Dibromide, and volatile organic chemical content and the laboratory results submitted to the Department for approval.
- 2) The new wells will be equipped for installation of emergency chlorination equipment.
- 3) Well No. 8 will not be used as a source of supply without prior approval from the department."

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 DWR for low-interest loans. DHS is required by SDWBA to analyze the public health issues, 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 PU Code §§816 through 851, public utility water companies must obtain authorization from this Commission to enter into any long-term loan. PU Code §454 requires a public utility water company to obtain Commission approval for rate increases.

DHS has reviewed Bakman's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated August 15, 1990, DWR has informed Bakman of its eligibility for a loan under SDWBA.

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

<u>Description of Item</u>	<u>Estimated Cost</u>
1. Well No. 13-A	\$ 57,000
2. Developing	4,300
3. Tests	700
4. Pump 13-A	62,000
5. Tank	10,500
6. Transmission Line (Clovis Ave.)	51,000
7. Well No. 6-A	57,000
8. Developing	4,300
9. Tests	700
10. Pump 6-A	62,000
11. Tank	10,500
12. Well No. 9	15,000
13. Transmission line to connect 8-A to tank 8	145,000
14. Right of way cost	60,000
15. Inspection, title cost, legal fee	<u>10,000</u>
Subtotal	\$550,000
Add: DWR 5% Administrative Fee	<u>27,500</u>
Total Estimated Project Cost	<u>\$577,500</u>

The proposed loan from DWR will provide for a 15-year repayment schedule with equal semi-annual payments of principal and interest at an interest rate of 3.41% per annum.

The revenue to meet the annual payments on the SDWBA loan will be obtained from charges to be placed on all metered and flat rate services. The total amount of revenues from the proposed surcharge will exceed the loan repayment requirement by approximately 10%. In accordance with DWR requirements, this over-collection will be deposited with the fiscal agent to accumulate a reserve of two semi-annual payments over a 10-year period. Earnings of the reserve fund, net of charges for 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 semi-annual 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.

The annual requirements for debt service will be approximately \$54,476. The amount of the surcharge to repay principal, interest, and necessary reserve on the loan will be in direct proportion to the capacity of each customer's meter or service connection. The following surcharge would produce approximately \$4,540 per month, requiring an increase in water rates of \$2.47 for a 1 1/2 inch meter, \$3.95 for a 2 inch meter, \$7.41 for a 3 inch meter, and \$12.35 for a 4 inch meter. A surcharge for flat rate customers would be \$1.24 per month for a one inch service. For a multiple unit the surcharge would be \$0.74. Business establishments with 3/4 inch service would pay \$0.74, business establishments with 1 inch service would pay \$1.24, and the 2 inch service to Rain Tree Nursing Home would be \$3.95. For a 4 inch service to Easterby Schools the surcharge would be \$12.35.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge<sup>2/</sup></u>
Residential <sup>1/</sup>	\$ 1.24
1 1/2"	2.47
2"	3.95
3"	7.41
4"	12.35

<sup>1/</sup> 5/8" x 3/4" flat rate.

<sup>2/</sup> This surcharge is in addition to regular charges for water service.

Bakman's present charges for water service were authorized by Commission Resolution W-3502, effective July 17, 1990 pursuant to Advice Letter No. 43, dated July 12, 1990.

The estimated annual gross revenues for 1990 at present rates is approximately \$543,368. The \$54,476 yearly increase under the SDWBA loan surcharge thus would increase Bakman's revenues by approximately 10.0%.

On the evening of November 14, 1990, a staff regulatory analyst from the Commission Advisory & Compliance Division (CACD) conducted a public meeting at the Armenian Cultural Foundation Center, Fresno, California. The meeting was attended by approximately 15 customers of the utility. Also participating were representatives from DHS, DWR, and Bakman. At the direction of the Commission, Bakman sent a letter to all customers notifying them of the public meeting. A notice was also published in the local newspaper.

The meeting began with the panel members representing DHS, the Commission's representative and Bakman's owner and manager introducing themselves to the assembled customers. The Commission's staff regulatory analyst then gave a detailed explanation of the responsibilities of each of the three departments involved in the SDWBA program. The customers were informed that DHS is charged with the responsibility to recommend

improvements and rehabilitation necessary to provide pure, wholesome and potable water available in adequate quantities and at sufficient pressure for health, cleanliness, and other domestic purposes. If DHS finds that a system, such as Bakman, is not up to standard, it is required to demand that improvements be made. If sufficient money is not available, DHS recommends that the system try to obtain a loan to make the improvements. If no other loan monies are available the SDWBA loan must be sought through application with DWR. In the case of Bakman, DHS had required that the improvements be made. No other monies were available. Application was made and approved by DWR.

The staff regulatory analyst who chaired the meeting then called upon the DHS representative to describe the deficiencies in the Bakman system. The DHS Sanitary Engineer assigned to Bakman, told the audience about the necessary improvements that are required to bring the Bakman system up to DHS minimum health standards.

Bakman's owner then gave a detailed explanation of the specific work that would be performed and the estimated cost at each major phase.

The staff regulatory analyst presented a detailed explanation of the Commission requirements for handling SDWBA surcharge collections, the cost to each type of customer, and that the SDBWA loan authorization was the only source of funds available at such a low rate of interest for Bakman to make the plant improvements required by DHS. He also reviewed some of Bakman's financial resources and income and explained that the money could only come from three possible sources: Bakman's own funds, borrowing from banks or individuals, or from DWR. Bakman does not have the financial capacity to generate an estimated \$577,500. Local banks or other financial institutions including other governmental agencies are not willing to extend the loan

to Bakman at an interest rate comparable to the State. Grant monies are not available to public utilities. The lender of last resort is DWR and the SDWBA program.

At the conclusion of the public meeting, Bakman's customers were asked for their sentiments. The staff regulatory analyst first asked if the improvements were needed. The majority said yes. When asked whether they favored the SDWBA loan payment and accompanying rate surcharge, the customers also overwhelmingly approved.

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

To ensure adequate accountability of SDWBA loan construction funds advanced by DWR to the utility, such funds should be deposited by Bakman in a separate bank account. All disbursements of such DWR loan funds should also pass through this bank account.

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, 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 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.

Bakman should establish a balancing account to be credited with revenue collected through the surcharge and the accrued interest on the revenue. The balancing account should be charged with payments of principal and interest 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. 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.

Based on the estimated completion date of the project, in order for the surcharge to produce enough revenue to meet the initial payment of principal and interest on the SDWBA loan due in May, 1992, it is necessary for Bakman to place the surcharge in effect beginning March 31, 1991. This will enable the utility to meet the initial payment and make the regular semi-annual payments thereafter.

Bakman states that it will use \$170,000 of the proceeds from the SDWBA loan to repay a loan from the Bank of Fresno that was authorized by D.90-05-027 (A.90-02-064) and which was used to begin construction on the SDWBA project.

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 \$577,500, including a 5% 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 \$54,476 per year. Approximately \$49,524 will be used to meet the loan payments. The remaining \$4,952, which is approximately 10% of the loan payments, will remain deposited with the fiscal agent in order to accumulate a reserve equal to two semi-annual loan payments over a 10-year period.

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

6. The rate surcharge will increase Bakman's annual gross revenues by approximately \$54,476, and increase the water rates by approximately \$0.59 per month for an average residential customer.

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

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. Bakman should establish a balancing account to be credited with revenues collected through the surcharge and the accrued interest on the revenues. The balancing account would be reduced by payments of principal and interest on the loan. The rate surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages and 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 March 31, 1991 so as to accumulate funds to make the initial principal and interest payment due in May, 1992.

13. Notice of the filing of the application appeared on the Commission's Daily Calendar of October 17, 1990. Notice of the filing of the amended application appeared on the Commission's Daily Calendar of January 30, 1991. No formal protests under Rule 8 have been received; therefore, no public hearing is necessary.

14. Bakman will utilize \$170,000 of the proceeds from the SDWBA loan to repay a loan from the Bank of Fresno that was authorized by D.90-05-027 (A.90-02-064) and which was used to begin construction on the SDWBA project.

Conclusion of Law

The application should be granted to the extent set forth in the following order, and the ensuing rates are just and reasonable.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Bakman Water Company (Bakman) 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 five days after the date of filing, and shall apply only to service rendered on or after March 30, 1991.
2. Bakman is authorized to borrow approximately \$577,500 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purpose specified in the application.
3. Bakman shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and the accrued interest on the revenue. The balancing account shall be reduced by payment of principal and interest to the California Department of Water Resources. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Bakman.
4. As a condition of the rate increase granted herein, Bakman shall be responsible for refunding or applying on behalf of the 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. To assure repayment of the loan, Bakman shall deposit all rate surcharges collected with the fiscal agent approved by DWR. Such deposits shall be made within 30 days after the surcharges are collected from customers.

7. Bakman shall file with the Commission a copy of the loan contract with DWR, and a copy of the agreement with the fiscal agent, within 15 days after these documents have been executed.

8. Bakman 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. 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 Bakman has paid the fee of \$815, prescribed by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated MAR 22 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
G. MITCHELL WILK  
JOHN B. OHANIAN  
DANIEL WM. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

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

*Neal J. Saulman*  
NEAL J. SAULMAN, Executive Director  
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PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
MAR 29 1991  
BY *G. Saenz*

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Sunnyside Avenue, located approximately 1-1/2 miles east of Fresno, and vicinity, Fresno County.

RATES

Quantity Rate:

All water, per 100 cu. ft. . . . . \$ 0.344

Service Charge:

	<u>Per Meter Per Month</u>	
	<u>Service Charge</u>	<u>SDWBA Surcharge</u>
For 5/8 x 3/4-inch meter . . . . .	\$ 3.80	\$ 0.49
For 3/4-inch meter . . . . .	4.10	0.74
For 1-inch meter . . . . .	5.45	1.24
For 1-1/2-inch meter . . . . .	8.10	2.47
For 2-inch meter . . . . .	10.90	3.95
For 3-inch meter . . . . .	21.80	7.41
For 4-inch meter . . . . .	30.25	12.35
For 6-inch meter . . . . .	50.80	24.70
For 8-inch meter . . . . .	72.80	39.52
For 10-inch meter . . . . .	90.70	56.81

(N)  
|  
(N)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. The established billing cycle for General Metered Service is every two months.
2. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill.  
This surcharge must be identified on each bill.  
The surcharge is specifically for the repayment of the California SDWBA loan authorized by D. (enter number).
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(N)  
|  
(N)

APPENDIX B  
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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Sunnyside Avenue, located approximately 1-1/2 miles east of Fresno, and vicinity, Fresno County.

RATES

	Per Service Connection	
	Per Month Connection Charge	SDWBA Surcharge
1. For a single-family residential unit including premises not exceeding 14,000 sq. ft. in area . . . . .	\$ 9.90	\$ 1.24
2. For a multiple unit residential unit, including two units and premises . . . . .	14.00	1.48
a. For each additional unit . . . . .	7.00	0.74
3. For each business establishment with one toilet and wash basin and served from a 3/4-inch service connection . . . . .	6.15	0.74
4. For each business establishment served from a 1-inch service connection . . . . .	19.75	1.24
5. For a 2-inch service connection to Raintree Nursing Home . . . . .	43.75	3.95
6. For a 4-inch service connection to Easterby School No. 2 (Turner School) . . . . .	123.00	12.35

(N)  
|  
(N)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one-inch in diameter, except as noted.
2. All service not covered by the above classifications shall be furnished only on a metered basis.

(continued)

APPENDIX B  
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Schedule No. 2  
(continued)

GENERAL FLAT RATE SERVICE

3. For service covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.
4. The established billing cycle for residential flat rate service is every two months.
5. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. The surcharge is specifically for the repayment of the California SDWBA loan authorized by D. (enter number).  
(N)  
|  
(N)
6. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(End of Appendix B)