

ALJ/TRP/jft

Decision 92-07-048 July 22, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of Del Este Water Company (U175W) )  
to borrow funds under the Safe )  
Drinking Water Bond Act, to )  
mortgage property in connection )  
therewith and to add a surcharge )  
to water rates to repay such loan. )

**ORIGINAL**

Application 92-01-043  
(Filed January 14, 1992)

O P I N I O N

By this decision, we grant the request of Del Este Water Company (applicant) for authority to borrow money from the State Department of Water Resources (DWR) under the Safe Drinking Water Bond Act of 1988 (SDWBA). Applicant also seeks to add a surcharge to its water rates to repay the principal and interest on the borrowed funds. Applicant seeks to borrow a \$5,189,724 principal amount at a 3.1775% annual interest rate, to be repaid over 20 years and to increase present water rates by a surcharge sufficient to repay \$387,861 annually on the loan.

Procedural Background

Applicant filed its request on January 14, 1992 for authority to borrow funds under the SDWBA to be repaid over a 15-year term. On May 4, 1992, applicant filed an amended request revising the loan repayment term from 15 to 20 years, following discussions with the Commission staff and with the State DWR. The extended loan repayment period would decrease the customer surcharges necessary to generate annual revenues needed to service the debt.

Within 10 days following its initial filing, applicant published a notice describing the general terms of the proposed increase in water rates sought in its application in a newspaper of

general circulation within applicant's service territory pursuant to Rule 24 of the Commission's Rules of Practice and Procedure.

On April 21, 1992, applicant held a Project Feasibility Meeting in Modesto, California, in accordance with the administrative regulations of DWR. At the meeting, applicant's representatives presented to customers in attendance an overview of the SDWBA funding process, and the proposed projects to be funded thereunder. Estimated surcharge rates were provided to customers who attended and were discussed during the meeting.

No party has protested the application. Accordingly, no hearings are necessary, and this decision is issued on an ex parte basis.

The application was reviewed by the Commission Advisory and Compliance Division's Water Branch and Finance Branch (Staff). Based on its review, Staff supports the improvements proposed by applicant, but initially had concerns over the financing arrangements. Staff notes there may be prospects for a potential sale of applicant's water utility system to a public entity. Staff does not want utility customers to pay twice for the plant financed by SDWBA loans. Accordingly, Staff proposes that Commission approval of the application be conditioned on applicant's agreement not to seek compensation for such plant financed by SDWBA in the event of a sale.

By letter to the administrative law judge dated April 10, 1992, applicant responded that it does not object to the condition proposed by Staff. However, in view of the fact that the potential sale of the Del Este System to the City of Modesto is currently a dead issue, applicant sees no reason for explicit language in the decision requiring such a condition.

Although applicant is not presently contemplating a sale of its system, such a sale could occur at some future date. We find the condition proposed by Staff to be reasonable as a general precaution, and accordingly will adopt it.

Surcharge Amounts

Applicant estimates it will need revenues of \$193,930 semiannually, or \$387,861 per year to make principal and interest payments on the loan and to fund a loan repayment reserve, as required by the DWR to be accumulated over the first 10 years of the loan. The proposed customer surcharges to cover these payments would represent an annual increase of 8.5% over 1992 estimated revenues at present rates. Applicant's present water service rates were authorized by Decision 91-12-073.

The proposed surcharges applicable to flat rate and general metered service are set forth in Exhibit F of the application. Applicant proposes that the level of the surcharge be adjusted periodically, when authorized by Commission action, to reflect changes in the number of connections and projected overages and/or shortages in collected funds.

Applicant proposes to establish a segregated bank account into which the revenues collected through the proposed surcharge would be deposited. The bank account would then be charged with payments of principal and interest on the loan, the services of the fiscal agent, and would also be used to hold the required loan repayment reserve. The DWR would be given a security interest in this bank account.

Terms of Loan Contract

Applicant plans to enter into the standard form of loan contract used by the DWR for SDWBA loans. Applicant states that a copy of the loan contract will be filed with the Commission after it has been executed, following Commission approval of this application. The DWR and applicant will also enter into a mortgage and security agreement covering all of applicant's property.

Proposed Improvements

Applicant presents in Exhibit H a description of its planned improvements to be paid for out of the net proceeds of the proposed loan, and an explanation of why they are needed.

The project for the Southeast Modesto System 1-A consists of drilling new wells, constructing two storage tanks and distribution mains, and installing a treatment unit at one of the well sites. Estimated cost is \$2,284,432.

The project for the East Modesto/Empire Systems 1, 7, and 4 consists of construction of transmission mains, three new wells, pumps, equipment and buildings, and two carbon units. Estimated cost is \$1,662,150.

The project for the South Modesto System 1-A consists of drilling three new wells, constructing two storage tanks, and putting in transmission mains. Estimated cost is \$1,034,250.

Exhibit H of the application sets forth copies of memoranda from the Office of Drinking Water to the DWR, concluding that the proposed projects:

- a. Are necessary to provide pure, wholesome, and potable water in adequate quantity at sufficient pressure for health, cleanliness, and other domestic purposes;
- b. Are appropriate to meet the needs of the applicant in order to bring the system to minimum standards; and
- c. Are technically feasible and represent a cost-effective solution to the problem. The cost per connection falls within the acceptable range.

#### Findings of Fact

1. The proposed water system improvements are needed to produce a healthful, reliable water supply.
2. The DWR has found applicant eligible for a construction loan, including a 5% administrative fee, in the amount of \$5,189,724 under provisions of the SDWBA.
3. The proposed SDWBA loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring the estimated \$5,189,724, required to complete the improvements.

4. The rate surcharges required to repay principal and interest on the SDWBA loan over a 20-year term will increase applicant's annual gross revenues by approximately \$387,861, representing an average 8.5% increase.

5. Applicant proposes to establish a segregated bank account into which revenues collected through the proposed surcharge would be deposited.

6. The established bank account would then be charged with payments of principal and interest on the loan, the services of the fiscal agent, and would also be used to hold the required loan payment reserve.

7. The monthly customer surcharge rates set forth in Appendix A are calculated to generate the annual requirement of \$387,861 for servicing applicant's SDWBA debt.

Conclusions of Law

1. The application should be approved, conditioned on applicant's agreement not to seek compensation for such plant financed by SDWBA in the event of a sale.

2. The surcharge rates in Appendix A should be adopted.

3. The surcharges established to repay the SDWBA loan should last as long as the loan.

4. The surcharge payment should not be intermingled with other utility funds.

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

6. Since the utility's stockholders are not financing the proposed plant improvements, applicant is not entitled to seek any compensation for plant financed by the SDWBA loan should such plant be acquired by a public authority.

ORDER

IT IS ORDERED that:

1. After the effective date of this order, Del Este Water Company (applicant) is authorized to file the surcharge rates attached to this order as Appendix A. Such filing shall comply with General Order 96-A. The effective date of such filing shall be 5 days after filing. The revised schedules shall apply to service rendered on or after the effective date hereof.

2. Applicant is authorized to borrow \$5,189,724 from the State of California, Department of Water Resources (DWR), to execute the proposed loan contract and to use the proceeds for the purposes specified in the application.

3. Applicant 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 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 applicant. The rate surcharge may be adjusted periodically to reflect changes in number of customers and resulting overages or shortages in the balancing account. These adjustments to the future surcharge rate should be accomplished by advice letter proceedings.

4. Applicant shall establish and maintain a separate bank account, preferably interest bearing to ensure adequate accountability for deposits and disbursements of Safe Drinking Water Bond Act (SDWBA) loan funds advanced by DWR to the utility, and for the services of the fiscal agent. All surcharge amounts collected from customers shall be deposited in the account within 30 days.

5. Plant financed through the SDWBA loan shall be permanently excluded from rate base for ratemaking purposes.

6. Applicant shall file with the Commission Advisory and Compliance Division 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.

7. Applicant shall not seek any compensation for plant financed by the SDWBA loan should such plant be acquired by a public authority.

8. Application 92-01-043 is granted as set forth above.

9. 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 the statutory fees set of \$6,189 by Public Utilities Code § 1904(b).

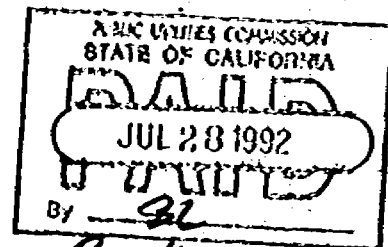
In all other respects, this order becomes effective 30 days from today.

Dated July 22, 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

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

*Neal J. Saulman*  
NEAL J. SAULMAN, Executive Director  
NS



Rec. #35621  
\$ 6,189.00

APPENDIX A

A.92-01-043

Page 1

Cal. P.U.C. Sheet No. \_\_\_\_\_

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Cal. P.U.C. Sheet No. \_\_\_\_\_

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Modesto and Turlock and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATES

Quantity Rates:

For the first 10,000 cu. ft., per 100 cu. ft.. \$ 0.453  
 For all over 10,000 cu. ft., per 100 cu. ft... 0.412

Service Charge:

	<u>Per Meter Per Month</u>			
	<u>Service Charge</u>	<u>SDWBA Surcharge</u>	(N)	
For 5/8 x 3/4-inch meter.....	\$ 5.20	\$ 1.25		
For 3/4-inch meter.....	7.55	1.50		
For 1-inch meter.....	9.50	1.85		
For 1-1/2-inch meter.....	12.75	4.50		
For 2-inch meter.....	16.60	6.75		
For 3-inch meter.....	26.30	11.00		
For 4-inch meter.....	35.70	21.00		
For 6-inch meter.....	55.25	36.00		
For 8-inch meter.....	76.00	54.75		
For 10-inch meter.....	120.30	78.00		
For 12-inch meter.....	146.95	94.00		(N)

The service charge is a readiness-to-serve charge which is added to the charge for water used computed at the Quantity Rates.

(continued)

(To be issued by utility)

Issued by \_\_\_\_\_

(To be issued by Cal. P.U.C.)

Advice Letter No. \_\_\_\_\_

Date Filed \_\_\_\_\_

Decision No. \_\_\_\_\_

Name \_\_\_\_\_

Effective \_\_\_\_\_

Title \_\_\_\_\_

Resolution No. \_\_\_\_\_



Schedule No. 1  
(continued)

GENERAL METERED SERVICE

SPECIAL CONDITION

1. All bills are subject to the reimbursement fees set forth on Schedule No. UP.
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.

(N)  
|  
(N)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. \_\_\_\_\_

Decision No. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date Filed \_\_\_\_\_

Effective \_\_\_\_\_

Resolution No. \_\_\_\_\_

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all water furnished on a flat rate basis.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATES

Per Service Connection  
Per Month

For a premise served by an unmetered water connection having the following areas:

	<u>Connection Charge</u>	<u>SDWBA Surcharge</u>	(N)
6,000 sq. ft., or less.....	\$ 11.50	\$ 1.25	
6,001 to 10,000 sq. ft.....	13.30	1.50	
10,001 to 16,000 sq. ft.....	16.00	1.75	
16,001 to 25,000 sq. ft.....	19.25	2.00	
Over 25,000 sq. ft.....	23.70	2.50	

SPECIAL CONDITIONS

1. Meters may be installed at the option of the utility or the customer, in which event service will be furnished only under Schedule No. 1, Metered Service. A customer's request for metered service must be made in writing.
2. Customers requesting service of the following types will not be served under this schedule, but will be served under Schedule No. 1, Metered Service.
  - a. Residential service connections larger than 3/4" diameter or any 3/4" residential service that, in the utility's judgement, may consume excessive water because of lot size, special equipment, or unusual use.
  - b. Service connections to commercial or business establishments.
  - c. Service connections for agricultural purposes.
  - d. Service connections to premises containing multiple dwellings or dwellings and occupied trailer houses.

(To be issued by utility)

(continued)  
Issued by \_\_\_\_\_

(To be issued by Cal. P.U.C.)

Advice Letter No. \_\_\_\_\_

Date Filed \_\_\_\_\_

Decision No. \_\_\_\_\_

Effective \_\_\_\_\_

Resolution No. \_\_\_\_\_

Schedule No. 2  
(Continued)

FLAT RATE SERVICE

- 3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
- 4. 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.

(N)

(N)

(END OF APPENDIX A)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. \_\_\_\_\_

Decision No. \_\_\_\_\_

Name

Title

Date Filed \_\_\_\_\_

Effective \_\_\_\_\_

Resolution No. \_\_\_\_\_