

ORIGINAL

Decision 82 07 113 JUL 21 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
the Greenbelt Water Company, Inc.,)
a California corporation, 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.)

Application 82-02-56
(Filed February 23, 1982)

O P I N I O N

Greenbelt Water Company, Inc., (Greenbelt) requests authority to borrow \$128,440 for 35 years at an interest rate of 8-1/2% per annum, under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code Sections 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 February 25, 1982.

The utility provides water to approximately 73 customers in the Rio del Mar Lodge Sites, Subdivisions 1 and 2, in the unincorporated community of Aptos, located approximately seven miles east of the City of Santa Cruz, Santa Cruz County.

Currently, one customer is metered, while the remaining 72 customers have flat rate service. Greenbelt has a potential of

approximately 45 additional customers and the population in its service area is approximately 200. Four other water companies also serve the community of Aptos.

The utility's present water supply is obtained from three underground wells all located within Greenbelt's service area. These water supplies require no filtration and chlorination treatment because all ground water sources meet primary drinking water standards. The water obtained from these wells is pumped uphill to three steel reservoirs for storage. Then, the water moves downhill by gravity flow for distribution and use by Greenbelt's customers.

Greenbelt has serious deficiencies within its water system, including deteriorating and undersized transmission and distribution mains, inadequate storage facilities, and insufficient sources of water supply. Also, the utility incurred the loss of a tank and pump due to storm damage.

Greenbelt proposes to correct the deficiencies in its water system by installing approximately 8,000 feet of 8-inch transmission and distribution mains, constructing a 50,000-gallon steel storage tank, and drilling for a new well and installing a new pump. Also, due to storm damage, Greenbelt proposes to replace a steel booster tank, pump, and related appurtenances. In addition, the utility plans to install nine fire hydrants.

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 loans. The California Department of Health Service (DHS) is required by SDWBA to analyze the public health issues and determine plant improvements needed to meet water quality and quantity 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 Sections 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 and Santa Cruz County Environmental Health Service (SCCEHS) have reviewed the Greenbelt loan proposal and have set forth a summary of construction to be undertaken with the loan proceeds. By letter dated March 4, 1982, DWR informed Greenbelt of its eligibility for a loan under the SDWBA.

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

<u>Description of Item</u>	<u>Estimated Cost</u>
1. Install 8,000 feet of 8-inch transmission and distribution mains	\$ 65,000
2. Drill new well and install new pump	15,000
3. Construct a 50,000-gallon storage tank	30,000
4. Replace booster tank, pump, wiring, and flow meter due to storm damage	3,200
5. Reconstruct pump and well due to storm damage	2,000
6. Install fire hydrants	<u>8,000</u>
Subtotal	\$123,200
Engineering Fees	1,500
DWR Administrative Fee 3%	<u>3,740</u>
Total	<u><u>\$128,440</u></u>

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 8-1/2% per annum.

The revenue to meet the semiannual payments on the SDWBA loan will be obtained from surcharges on all metered and flat rate services. An exception will be made for those current customers who have requested that the Commission provide them an option of

making a one-time, upfront cash payment (upfront cash payment) in lieu of monthly rate surcharge payments. Such customer upfront cash payments shall be considered as surcharge revenue. Those customers that exercise this option will not be required to pay the monthly SDWBA rate surcharge to Greenbelt over the life of this loan. The staff of the Commission's Revenue Requirements Division has determined that the SDWBA rate surcharge to be paid by Greenbelt's current customers will remain approximately the same, regardless of how many other current customers, if any, make the upfront cash payment. The total amount of revenue from the proposed surcharge will exceed the loan repayment requirements by approximately 10%. In accordance with DWR requirements, this surcharge including the overcollection will be deposited with the fiscal agent to accumulate a reserve of two semiannual loan payments over a 10-year period. Also, any customer upfront cash payments will be deposited with the fiscal agent. Earnings on funds deposited with the fiscal agent, net of charges for the fiscal agent's services, will be added to the fund. Net earnings of the fund will be used, together with rate surcharge amounts and any upfront cash payments 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.

If no customer upfront cash payments are made, the annual requirements for debt service will be approximately \$12,702. Customers, who prefer to make the upfront cash payment in lieu of being billed monthly on the SDWBA rate surcharge, will be required to pay \$1,760 each in lump sum to Greenbelt. Every Greenbelt customer will be notified by the utility in advance of the option of either making the SDWBA rate surcharge payment or the upfront cash payment. Any customer upfront cash payment would be due within 30 days after Greenbelt files the revised rate schedules with the Commission per General Order 96-A. The upfront cash payment shall apply only to those customers currently on hookup with Greenbelt.

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. If no customer upfront cash payments are made, the following surcharge would produce approximately \$1,059 per month, requiring an increase in water rates of approximately \$14.50 per month for each residential customer.

If the actual construction costs of the water system improvements exceed the presently estimated costs, and if the utility is authorized to increase the amount of the SDWBA loan to cover such additional costs, it may be necessary to adjust both the upfront cash payment and the monthly rate surcharge accordingly.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge^{2/}</u>
Residential ^{1/}	\$14.50
3/4" Meter	21.75
^{1/} 5/8" x 3/4" meter or flat rate service not larger than 3/4".	
^{2/} This surcharge is in addition to regular charges for water service.	

Greenbelt's present rates were authorized by Commission Decision (D.) 91980, effective August 11, 1980.

On the evening of March 18, 1982, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Monte Toyon Methodist Camp Conference Room located in Aptos, California. The meeting was attended by 18 customers of the utility. Also participating were representatives from SCCEHS, DWR, and Greenbelt. At the direction of the Commission, Greenbelt had sent a letter to all customers notifying them of the public meeting. A notice was also published in the local newspaper.

After a general introduction which included an explanation of all basic aspects of the SDWBA loan proposal, the floor was opened for questions. Some of the questions were of a routine nature concerning the plant reconstruction program and the related SDWBA rate surcharge, and the panel members answered these questions to the customers' satisfaction. Most of the customers

questioned the need for metering the utility's remaining flat rate services, and it was obvious that almost all the customers wanted the installation of meters removed from the SDWBA loan proposal. The DWR representative stated that he would try to seek a written exemption from higher officials at DWR that would remove the metering requirement from the SDWBA loan proposal. Subsequent to the public meeting, by its letter dated May 26, 1982, DWR gave Greenbelt this written exemption.

Other customers asked if the additional 50,000-gallon storage tank, new well, and pump were needed to bring Greenbelt's water up to minimum quality and quantity standards. The SCCERS representative mentioned that such standards could be met with the existing storage facilities so long as the other requirements were met. However, he also mentioned that his agency would approve of the additional storage, if the SDWBA loan is authorized with sufficient funds to add the 50,000-gallon storage tank. The Greenbelt representative stated that the additional storage tank was needed because present storage capacity is not adequate to help prevent water outages or low water pressure, particularly during periods of high demand. The customers were told that had there been adequate storage during the recent January 1982 storm, it is

possible there would not have been an interruption in water service during that period of very inclement weather. The SCCEHS representative later determined that the additional 50,000-gallon storage tank is necessary to meet water storage requirements, as indicated in the original SDWBA loan proposal discussed with Greenbelt's customers. Also, the record should show that one of Greenbelt's existing storage tanks is continually leaking water and needs constant maintenance and repair work.

Some customers asked what SCCEHS would do if Greenbelt did not make the necessary improvements to its existing water system. The SCCEHS representative stated that no matter what happens and regardless of the financing method used, SCCEHS would insist that Greenbelt make the system improvements required to bring the utility's water up to minimum standards.

The most controversial issue was the strong expression by a few individuals that any customer who so desired be given the option of making an upfront cash payment to Greenbelt rather than paying the monthly SDWBA rate surcharge over the 35-year life of the loan.

Several customers asked questions concerning the decision-making process in approving the borrowing under the SDWBA program and increasing rates to repay the loan. The staff

accountant replied that the Commission is the decision-maker. The Commission will take all of the factors of the program into consideration in reaching its decision. The need for water which meets DHS standards is the primary objective along with the engineering and financial aspects of the SDWBA improvement project.

The panel members also discussed the SDWBA loan interest rate. DWR's authorization letter to Greenbelt dated March 4, 1982, projects an interest rate of 8-1/2% per annum. However, the true interest rate will be recalculated at the time all of the State of California's Safe Drinking Water bonds have been sold. At that time an average interest cost for the entire SDWBA program will be calculated. Greenbelt's loan interest rate will then be adjusted to the average. Utilities currently in the SDWBA program will 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 semiannual payments so that the adjusted interest rate will be paid by the end of the term of the contract for the SDWBA loan.

At the conclusion of the public meeting, Greenbelt's customers were asked for their opinions. By a show of hands, the customers unanimously agreed that the utility's present system needed improvements to bring the water quality and quantity up to minimum standards. When asked whether they favored the SDWBA loan payment and accompanying rate surcharge, the customers expressed mixed sentiments with some favoring the upfront cash payment option rather than the rate surcharge method.

The staff of the Commission's Revenue Requirements Division reviewed the application together with the testimony of SCCEHS concerning the proposed plant improvements and believes that service will be substantially improved. The proposed SDWBA loan is clearly the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Greenbelt to enter into the proposed loan contract with DWR and to institute a surcharge on customers' bills to repay the loan. An exception will be made for those current customers who may exercise the option of making an upfront cash payment to Greenbelt rather than the monthly rate surcharge payment.

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

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 A.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 and upfront cash payment 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.

^{1/} D.88973, dated June 13, 1978 (mimeo.).

Greenbelt should establish a balancing account to be credited with revenue collected through the surcharge and any upfront cash payments, and with interest earned on funds deposited with the fiscal agent. Surcharge and upfront cash payment revenues should be deposited with the fiscal agent within 30 days after collection. The balancing account should be charged with payments of principal and interest on the loan, and for the services of the fiscal agent. 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 and upfront cash payment 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 of principal and interest on the SDWBA loan due in January 1983, it is necessary for Greenbelt to place the surcharge in effect beginning August 1, 1982. This will enable the utility to meet the initial payment and make the regular semiannual 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 prudent means of acquiring an estimated \$128,440 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. If no customer upfront cash payments are made, the proposed surcharge will generate approximately \$12,702 per year. Approximately \$11,544 will be used to meet the loan payment. The remaining \$1,158, which is approximately 10% of the loan payment, will be 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 and upfront cash payment funds 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 utility should notify all its current customers within five days after the date of this decision of the option of either making the SDWBA rate surcharge payment or the upfront cash payment. Those customers who prefer to make the upfront cash payment will be required to pay \$1,760 each in lump sum to Greenbelt, and thereby be relieved of any further payments to help retire the utility's SDWBA loan obligation. Any customer upfront cash payment would be due within 30 days after Greenbelt files the revised rate schedules with the Commission, per General Order 96-A. The upfront cash payment should apply only to those customers currently on hookup with Greenbelt.

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

8. If no customer upfront cash payments are made, the rate surcharge will increase Greenbelt's annual gross revenues by approximately \$12,702 and increase the water rates by approximately \$14.50 per month 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.

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

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

11. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Greenbelt should establish a balancing account to be credited with revenue collected through the surcharge, upfront cash payments, 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.

12. 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.

13. This surcharge should be placed in effect beginning August 1, 1982, to meet the initial payment due in January 1983.

14. An average interest rate for all SDWBA loans will be determined after all of the State of California Safe Drinking Water bonds have been sold. At that time the interest rate on each SDWBA loan outstanding will be adjusted to reflect the average rate.

Conclusions of Law

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

2. A public hearing is not necessary.

The following order should be effective five days from the date of signature to enable the utility to place the rate surcharge in effect beginning August 1, 1982.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Greenbelt Water Company, Inc., (Greenbelt) 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 August 1, 1982.

2. Greenbelt is authorized to borrow \$128,440 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Greenbelt shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and one-time, upfront cash payments (upfront cash payment) 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 Greenbelt.

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

7. Greenbelt 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. Greenbelt 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.

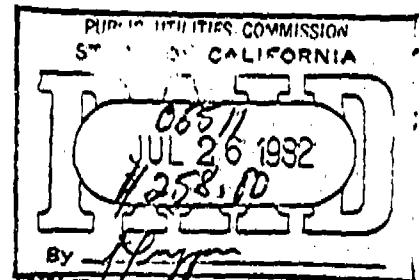
9. Greenbelt shall notify all its current customers within five days after the date of this decision of the option of either making the rate surcharge payment or the upfront cash payment. Those customers who prefer to make the upfront cash payment shall be required to pay \$1,760 each in lump sum to Greenbelt, thereby relieving such customers of any further payments to help retire the utility's SDWBA loan obligation. Any customer upfront cash payment shall be due within 30 days after Greenbelt files the revised rate schedules with the Commission, per General Order 96-A. The upfront cash payment shall apply only to those customers currently on hookup with Greenbelt.

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 \$258, set by PU Code Section 1904(b). In all other respects, this order becomes effective five days from today.

Dated JUL 21 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

Commissioner Leonard M. Grimes, Jr.,
being necessarily absent, did not
participate.



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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director

APPENDIX A

Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rio del Mar Lodge Sites Subdivisions Nos. 1 and 2 and parcels identified as Tax Code Areas 105-364-1 and 105-364-2, Santa Cruz County.

RATES

	<u>Per Meter Per Month Charge</u>	<u>Per Meter Per Month Surcharge</u>	(N)
Service Charge:			
For 5/8 x 3/4-inch meter.....	\$6.50	\$14.50	
For 3/4-inch meter.....	7.15	21.75	(N)
Quantity Rates:			
First 300 cu. ft., per 100 cu. ft.	\$0.25		
Over 300 cu. ft., per 100 cu. ft.	0.33		

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

Those customers who prefer to make the one-time, upfront cash payment shall be required to pay \$1,760 each. (N)
|
(N)

APPENDIX A

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Schedule No. 1

GENERAL METERED SERVICE

METERED SERVICE SURCHARGE

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.82-02-56 before filing tariff.

(N)

(N)

APPENDIX A

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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Rio del Mar Lodge Sites Subdivisions Nos. 1 and 2 and parcels identified as Tax Code Areas 105-364-1 and 105-364-2, Santa Cruz County.

RATES

	<u>Per Service Connection Per Month Charge</u>	<u>Per Service(N) Connection Per Month Surcharge</u>	
For a single-family residential unit	\$13.00	\$14.50	(N)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one-inch in diameter.

2. Service is limited to the number of connections authorized by the Public Utilities Commission, subject to any restrictions imposed by the County of Santa Cruz.

3. Meters may be installed at option of utility for above classification, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

Those customers who prefer to make the one-time, upfront cash payment shall be required to pay \$1,760 each.

(N)
|
(N)

APPENDIX A

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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

FLAT RATE SERVICE SURCHARGE

NOTE:

This surcharge is in addition to the regular charge of \$13.00 per one-inch or less service connection, per month. 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.82-02-56 before filing tariff.

(N)

(N)

(END OF APPENDIX A)