

RR/HPA/ARM/WPSC

Decision 83 02 046 FEB 16 1983**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 the Riverdale 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 82-12-06
 (Filed December 1, 1982)

O P I N I O N

Riverdale Water Company, Inc., (Riverdale) requests authority to borrow \$157,600 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 December 7, 1982.

The utility provides water to approximately 117 customers in the Riverdale Park Tract one-half mile southwest of Modesto, California in Stanislaus County. All of the customers have flat rate service. Riverdale has a potential of approximately 35 additional customers and the population in its service area is approximately 440.

The utility's present water supply is obtained from three underground wells all located within Riverdale'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 directly into the distribution system.

Riverdale has serious deficiencies within its water system, including deteriorating and undersized transmission and distribution mains. Riverdale proposes to correct the deficiencies in its water system by installing approximately 5,720 feet of 8-inch and 2,400 feet of 6-inch transmission and distribution mains, one 5,000 gallon tank, upgrade the pumping equipment at well #1 and install 152 new service connections to the property line of each lot within the system. In addition, the utility plans to install twelve steamer-type 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 Stanislaus County Environmental Health Service (SCEHS) have reviewed the Riverdale loan proposal and have set forth a summary of construction to be undertaken with the loan proceeds. By letter dated January 12, 1981, DWR informed Riverdale of its eligibility for a loan under the SDWBA.

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

<u>Description of Item</u>	<u>Estimated Cost</u>
1. 5,720 L.F. of 8" main including fittings	\$ 66,378.00
2. 2,400 L.F. of 6" main including fittings	24,000.00
3. One 5,000 hydropneumatic tank and pump fittings at Well #1	5,500.00
4. 12 fire hydrants	12,000.00
5. 152 Service Connections	<u>15,200.00</u>
Subtotal	\$123,078.00
Engineering and Inspection	13,000.00
Legal	2,000.00
Accounting	1,750.00
Contingency	<u>13,000.00</u>
Total Contract Work	<u>\$152,828.00</u>
D.W.R. Fees	<u>4,772.00</u>
TOTAL LOAN AMOUNT	<u><u>\$157,600.00</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 flat rate services.

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. 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 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.

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 service connection. The following surcharge would produce approximately \$1,298 per month, requiring \$11.10 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 the monthly rate surcharge accordingly.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge^{2/}</u>
Residential ^{1/}	\$11.10
3/4" Meter	16.65
1" Meter and 1" flat rate	27.75
1-1/2" Meter	55.50
2" Meter	88.80

^{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.

Riverdale's present rates were authorized by Commission Resolution No. W-1437, effective April 7, 1973.

On the evening of December 30, 1982 a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Church of the First Born, Riverdale and Greenlawn Streets in the Riverdale Park Tract, Modesto, California. The meeting was attended by 25 customers of the utility. Also participating were representatives from SCEHS and Riverdale. At the direction of the Commission, Riverdale 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. Numerous questions were asked regarding the replacement of the old distribution mains, the new service connections and the cost of the project. The Riverdale manager described the entire SDWBA project. He answered specific questions regarding each portion of the plant improvement. The staff accountant described how the monthly surcharge was computed and the manner in which all SDWBA monies would be controlled.

Many of the customers attending the meeting belong to the Riverdale Park Tract Homeowners Committee. The Committee president reported that an application has been filed for a matching funds grant from the Federal Department of Housing and Urban Development (HUD). The grant funds have been requested to make additional improvements to the water system not included in the SDWBA project and to also improve the road system. Approval of the HUD grant is pending.

Several customers asked if the owners of the 35 vacant lots in the Riverdale Park Tract would be required to pay the monthly SDWBA surcharge. The staff accountant replied that all present and future Riverdale customers would benefit from the SDWBA

project. In C.10991 of Cedar Ridge Water Company^{1/} the Commission considered the issue of requiring collecting a service fee, based upon the SDWBA surcharge, payable at the time water connection is made to the vacant lots. In D.82-04-112, the Commission concluded that a prospective service fee was proper. The fee is to be calculated from the time the SDWBA surcharge is effective until water service is provided to the lot. A maximum service fee was set at \$1,000.00.

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 Riverdale's 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

^{1/} D.82-04-112, dated April 21, 1982 (mimeo.).

interest cost for the entire SDWBA program will be calculated. Riverdale'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, Riverdale's customers were asked for their opinions. A clear majority of the customers favored the SDWBA loan payment and accompanying rate surcharge.

The staff of the Commission's Revenue Requirements Division reviewed the application together with the testimony of SCEHS 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 Riverdale 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 Riverdale 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,^{2/} 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.

^{2/} D.88973, dated June 13, 1978 (mimeo.).

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.

Riverdale 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. Surcharge 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 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 1984, it is necessary for Riverdale to place the surcharge in effect beginning August 1, 1983. This will enable the utility to meet the initial payment and make the regular semiannual payments thereafter. If monies are not available from DWR to fund the SDWBA project by August 1, 1983, the effective date of collecting the surcharge will be extended. Notice of any extension will be given to Riverdale and its customers.

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. The proposed surcharge will generate approximately \$15,581 per year. Approximately \$14,165 will be used to meet the loan payment. The remaining \$1,416, 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 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 Riverdale 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 Riverdale's annual gross revenues by approximately \$15,581 and increase the water rates by approximately \$11.50 per month for an average residential customer with 3/4-inch flat rate service. Water rates of customers with larger services or meter capacities would be 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. Riverdale 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 August 1, 1983, to meet the initial payment due in January 1984. | If monies are not available from DWR to fund the SDWBA project by August 1, 1983 the effective date of collecting the surcharge will be extended.

13. 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.

14. The undeveloped lots will benefit from the expenditures being made from the proceeds of the SDWBA loan. The benefits include the availability of water furnished by a public utility which meets health standards.

15. It is reasonable to establish a service fee, based upon the SDWBA surcharge, payable at the time of connection of the undeveloped lots.

16. A maximum of \$1,000 for service fee is reasonable. Any higher amount would discourage development of the lots and be counter productive.

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, 1983.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Riverdale Water Company, Inc., (Riverdale) 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, 1983.
2. Riverdale is authorized to borrow \$157,600 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.
3. Riverdale 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 Riverdale.
4. As a condition of the rate increase granted, Riverdale 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, Riverdale 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.

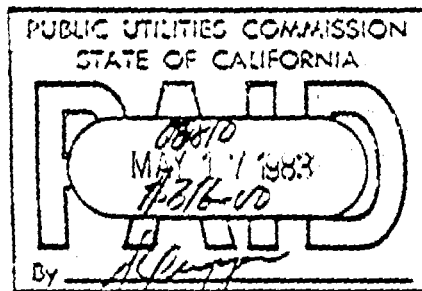
7. Riverdale shall file with the Commission a copy of the loan contract with DWR, and a copy of the agreement with the fiscal agent, within 30 days after these documents have been executed.

8. Riverdale 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 \$316, set by PU Code Section 1904(b). In all other respects, this order becomes effective five days from today.

Dated FEB 16 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners



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

[Signature]
Joseph E. Bodovitz, Executive Director

APPENDIX A

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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

the unincorporated area including Riverdale Park Subdivision and vicinity, located approximately one-half mile southwest of Modesto, Stanislaus County.

RATES

	<u>Per Meter Per Month Charge</u>	<u>Per Meter Per Month Surcharge</u>	(N)
Service Charge:			
First 600 cu.ft. or less.....	\$ 5.00		
Next 1,000 cu.ft. per 100 cu.ft....	.30		
Next 2,400 cu.ft. per 100 cu.ft....	.24		
Over 4,000 cu.ft. per 100 cu.ft....	.18		
Minimum Charge:			
For 5/8 x 3/4-inch meter.....	\$ 5.00	\$11.10	
For 3/4-inch meter.....	6.00	16.65	
For 1-inch meter.....	9.00	27.75	
For 1-1/2-inch meter.....	12.00	55.50	
For 2-inch meter.....	18.00	88.80	(N)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

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Schedule No. 1 (Cont'd.)

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.82-12-06 before filing tariff.

(N)

(N)

APPENDIX A

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Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The unincorporated area including Riverdale Park Subdivision and vicinity, located approximately one-half mile southwest of Modesto, Stanislaus County.

RATES

	<u>Per Service Connection Per Month Charge</u>	<u>Per Service Connection Per Month Surcharge</u>	(N)
1. For a single-family residential unit, including premises not exceeding 12,500 sq.ft. in area	\$ 6.00	\$11.00	
a. For each additional single-family residential unit in the same premises and served from the same service connection.	3.00	5.55	
b. For each 100 sq.ft. of premises in excess of 12,500 sq.ft.	.04	.22	(N)

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Schedule No. 2 (Cont'd.)

FLAT RATE SERVICE

SPECIAL CONDITIONS

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

2. For service covered by the above classifications, if the utility so elects a meter shall be installed and service under Schedule No. 1, Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period shall be made on or before that day.

FLAT RATE SERVICE SURCHARGE

NOTE:

This surcharge is in addition to the regular charge of \$ 6.00 per 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.82-12-06 before filing tariff.

(N)

(N)

