ALJ/rr/jt *

Decision 83 09 078 September 30, 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of Francis H. Ferraro, doing business as MADERA RANCHOS WATER CO., and MADERA RANCHOS WATER COMPANY, INC., a California corporation, for authority to sell and transfer his certificate of public convenience and necessity and related assets to MADERA RANCHOS WATER COMPANY, INC., and for the latter to issue and sel[redacted] of its capital stock[redacted] latter to borrow f[redacted] Drinking Water Bo[redacted] surcharge to wat[redacted] principal and [redacted]

Application 82-12-44
(Filed December 16, 1982)

Pal[redacted] Willoughby, [redacted]hos Water C[redacted]
Gunte[redacted] Department of[redacted]andall, for Depa[redacted]; and Arlen[redacted]era Ranchos Homeown[redacted]rd, interested parties.
Mary McKenzie, Attorney at Law, and C. Frank Filice, for the Commission staff.

O P I N I O N

Francis H. Ferraro, doing business as Madera Ranchos Water Company, requests authority to sell and transfer a certificate of public convenience and necessity and related assets to Madera Ranchos Water Company, Inc. (Madera), for Madera to issue and sell 1,000 shares of its capital stock, to secure a loan under the Safe Drinking Water Bond Act (SDWBA) and to add a surcharge to its water rates in order to repay the principal and interest on the loan.

The proposed plant improvements are set out below:

(a) Construct 8-inch water mains to provide a complete looped system to increase flow and pressure distribution for 4-inch mains and dead-end pipes.

(b) Construct a gravel pack well with a 75 horse-power pump.

(c) Construct a hydro-pneumatic tank for pump pressure and flow controls.

(d) Construct auxiliary engine system for sta[redacted]gency power (none at [redacted]

([redacted]ts in new water mains.

[redacted]isting water users.

[redacted]or meter reading in

[redacted]provements are shown in the followi[redacted]

	[redacted]	[redacted]timated Cost	Work to be Performed by
(a)	Wa[redacted]	80,500.00	Contractor
(b)	Ga[redacted]	12,250.00	Contractor
(c)	Tren[redacted]	12,000.00	Contractor
(d)	Well, [redacted] Piping, [redacted] Hydro-tank, Meters, Pump and Appurtenances	161,000.00	Contractor
(e)	Fire Hydrants	15,000.00	Contractor
(f)	Compaction Tests	3,000.00	Contractor
(g)	Auxiliary Engine and Appurtenances	80,000.00	Contractor
(h)	Meters	75,000.00	Contractor
(i)	Telemetering	94,000000	Contractor
	Subtotal	$532,750.00	
	Contingency	52,250.00	
	Incidentals, Administration	7,500.00	
	Engineering	87,500.00	
	Total Contract Work	$680,000.00	
	Department of Water Resources Fees (3%)	20,400.00	
	Total Loan Amount	$700,400.00	

Claudia Stanley sponsored Exhibit 2. She is office manager of Madera and corporate secretary. In her prepared testimony she stated that she believes the meters are a requirement of DWR; that in order to effectively read the meters the telemetering system is necessary. She stated that in the opinion of their engineer Mr. Giersch, the auxiliary power proposed is not necessary and could be eliminated without materially affecting the quality of service.

Stanley testified that during each of the past three years one of the pumps has failed during the summer peak season; that it generally takes six to seven days to get it repaired; and that during the repair period many complaints are received concerning low water pressure.

Garo[redacted] civil engineer retained by Ferraro for the pur[redacted] and specifications for the system improvemen[redacted]roblem areas:

[redacted] deadend lines and

[redacted]y during peak summer

[redacted]posed to install some fire hydrants [redacted] presently no fire protection. He stated [redacted]ly of between 1300 and 1500 gallons a m[redacted] be necessary to drill at least 800 to 850 feet an[redacted]uld have to be 18 or 21 inches. He testified that if t[redacted]em were unmetered, it would need at least 500 gallons a minute more than if it were metered.

Giersch stated that although his estimates for the project are valid to the best of his belief at the present time, they are really no more than estimates. A new estimate will be prepared when the project is finally determined, and that will be used to put the project out to bid. The witness stated further that in his opinion the auxiliary system originally included as part of the project improvement is unnecessary because Pacific Gas and Electric Company (PG&E) serves the area from two substations which are interconnected; therefore the likelihood of a power outage is minimal.

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Decision 83 09 078 September 30, 1983 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of Francis H. Ferraro, doing business as MADERA RANCHOS WATER CO., and MADERA RANCHOS WATER COMPANY, INC., a California corporation, for authority to sell and transfer his certificate of public convenience and necessity and related assets to MADERA RANCHOS WATER COMPANY, INC., and for the latter to issue and sell 1,000 shares of its capital stock and for the latter to borrow funds under the Safe Drinking Water Bond Act, and to add a surcharge to water rates to repay the principal and intrest on such loan.	Application 82-12-44 (Filed December 16, 1982)

Palmer & Willoughby, by Michael F. Willoughby, Attorney at Law, for Madera Ranchos Water Company, applicant.
Gunter A. Redlin, for California Department of Health Services; Edward Crandall, for Department of Water Resources; and Arlene Joyce Ellis, for Madera Ranchos Homeowner's Executive Board; interested parties.
Mary McKenzie, Attorney at Law, and C. Frank Filice, for the Commission staff.

O P I N I O N

Francis H. Ferraro, doing business as Madera Ranchos Water Company, requests authority to sell and transfer a certificate of public convenience and necessity and related assets to Madera Ranchos Water Company, Inc. (Madera), for Madera to issue and sell 1,000 shares of its capital stock, to secure a loan under the Safe Drinking Water Bond Act (SDWBA) and to add a surcharge to its water rates in order to repay the principal and interest on the loan.

Duly noticed public and evidentiary hearings were held in Madera on April 5, 1983 and in San Francisco April 6, 1983.

Ferraro owns and operates a public utility water system authorized to provide service to two metered and 478 nonmetered customers situated near the City of Madera. Ferraro originally applied to the Department of Water Resources (DWR) for a loan under the SDWBA and requested authority from this Commission to borrow a maximum of $700,440 in order to effect necessary capital improvements to the system, thereby meeting water quality standards prescribed by Title 17 of the California Administrative Code and the Commission's General Order 103. He requested authority to repay the loan over a period of 20 years, and to increase rates for water service by a surcharge. Ferraro stated in his application that DWR had expressed the desire that he incorporate the system in order to facilitate the granting and servicing of the loan. He therefore has caused the system to be incorporated. If the application and surcharge are granted, increases in gross revenues would be as shown in the following tabulation:

(a)	Estimated 1982 Annual Gross Revenues at Present Rates	$ 91,500
(b)	Annual Surcharge Per This Application	81,044
(c)	Total	$172,544
(d)	Percentage Increase in Revenues Due to Surcharge	88.6%

Madera would establish a balancing account which would be credited with revenues collected through the surcharge. The account would be charged with payments of interest and principal on the loan and the surcharge would be adjusted when authorized by the Commission, to reflect changes in the number of connections and/or overages or shortages in the balancing account.

The proposed plant improvements are set out below:

(a) Construct 8-inch water mains to provide a complete looped system to increase flow and pressure distribution for 4-inch mains and dead-end pipes.

(b) Construct a gravel pack well with a 75 horse-power pump.

(c) Construct a hydro-pneumatic tank for pump pressure and flow controls.

(d) Construct auxiliary engine system for standby emergency power (none at present).

(e) Install fire hydrants in new water mains.

(f) Install meters for existing water users.

(g) Install telemetering for meter reading in high density area lots.

The costs for the various improvements are shown in the following tabulation:

	Description of Item	Estimated Cost	Work to be Performed by
(a)	Water Mains	$ 80,500.00	Contractor
(b)	Gate Valves	12,250.00	Contractor
(c)	Trench Restoration	12,000.00	Contractor
(d)	Well, Well Site Imp., Piping, Electrical, Hydro-tank, Meters, Pump and Appurtenances	161,000.00	Contractor
(e)	Fire Hydrants	15,000.00	Contractor
(f)	Compaction Tests	3,000.00	Contractor
(g)	Auxiliary Engine and Appurtenances	80,000.00	Contractor
(n)	Meters	75,000.00	Contractor
(i)	Telemetering	94,000000	Contractor
	Subtotal	$532,750.00	
	Contingency	52,250.00	
	Incidentals, Administration	7,500.00	
	Engineering	87,500.00	
	Total Contract Work	$680,000.00	
	Department of Water Resources Fees (3%)	20,400.00	
	Total Loan Amount	$700,400.00	

Public Hearing

At the public hearing segment of the proceeding held on April 5, six customers gave statements for the record. Generally these customers were opposed to the size of the increase coming, as it has, on the heels of an approximate 91% rate increase authorized Ferraro in 1982. In all about 20 customers attended the public hearing. The correspondence section of the formal file contains between 90 and 100 letters from customers, almost all of whom oppose some of the improvements requested in the application.

By Decision (D.) 82-11-024 dated November 3, 1982, we imposed on Madera a service connection moratorium, due to the lack of adequate water pressure in the system. The Department of Health Services (DHS) had been receiving numerous complaints concerning low pressure and water outages.

Evidence

Robert Shell, a customer, sponsored Exhibit 1, a bid from a contractor dated July 1982 for a well, tank and pump in the amount of $63,257. The purpose of his exhibit was to point out the difference between the bid he received and the figure of $161,000 suggested by the engineering firm which would be engaged to do the work on this project. The bid shown in Exhibit 1 includes the cost for a 10,000-gallon storage tank. The bid for a 50,000-gallon storage tank which Shell asserts is far in excess of anything required, would bring the total bid to $120,000.

Counsel for Ferraro stated that Shell's bid may be based on some faulty assumptions (1) because it contemplates a 500-foot well whereas Madera is thinking about an 850-foot well, and (2) the estimate is based on a pump that will produce 600 gallons per minute (gpm) whereas the Madera proposal includes a pump that will produce in excess of 1,000 gpm. He stated, however, that the state's DHS requires the contracts be put to bid and that anyone in the community who is qualified may participate in the bidding process.

Claudia Stanley sponsored Exhibit 2. She is office manager of Madera and corporate secretary. In her prepared testimony she stated that she believes the meters are a requirement of DWR; that in order to effectively read the meters the telemetering system is necessary. She stated that in the opinion of their engineer Mr. Giersch, the auxiliary power proposed is not necessary and could be eliminated without materially affecting the quality of service.

Stanley testified that during each of the past three years one of the pumps has failed during the summer peak season; that it generally takes six to seven days to get it repaired; and that during the repair period many complaints are received concerning low water pressure.

Garold Giersch is the civil engineer retained by Ferraro for the purpose of preparing plans and specifications for the system improvement. He described two main problem areas:

1. Low pressures, caused by deadend lines and inadequate sized piping.
2. Deficiency in water supply during peak summer months.

He stated that it is also proposed to install some fire hydrants in those areas where there is presently no fire protection. He stated that in order to get a supply of between 1300 and 1500 gallons a minute it would probably be necessary to drill at least 800 to 850 feet and the well size would have to be 18 or 21 inches. He testified that if the system were unmetered, it would need at least 500 gallons a minute more than if it were metered.

Giersch stated that although his estimates for the project are valid to the best of his belief at the present time, they are really no more than estimates. A new estimate will be prepared when the project is finally determined, and that will be used to put the project out to bid. The witness stated further that in his opinion the auxiliary system originally included as part of the project improvement is unnecessary because Pacific Gas and Electric Company (PG&E) serves the area from two substations which are interconnected; therefore the likelihood of a power outage is minimal.

Giersch sponsored Exhibits 5 and 6. Exhibit 5 is a comparison of metered with unmetered systems in the Fresno-Madera area of the San Joaquin Valley. The five unmetered systems show gallons per day per person usage ranging from 251 to 325. The three metered systems indicate usages of 170 to 224 gallons per day per person.

Exhibit 6 is a graph portraying projected energy cost savings over a period of 35 years. It shows that the pumping cost at the present PG&E rate over 35 years, if Madera is metered, will be about $731,000; whereas the cost for pumping the greater amount of water to the present unmetered system would be $1,077,000. The difference is about $345,000, and represents the difference in pumping 197 gallons, as opposed to 290 gallons per person per day. Over a 20-year period, the difference would be about $190,000; for 30 years, about $290,000. The cost for installing meters is presently estimated at $75,000; the cost for installing telemetering, $94,000.

Giersch testified that if the system were metered, adequate water supply to the service area could be supplied with a new well having a rating of about 1,300 to 1,500 gpm; but if unmetered, a larger capacity well would be required and instead of 1,500 gpm, between 2,000 and 2,200 gpm would be required. He stated he is familiar with the area, and that it is unlikely that a well could be developed that would produce 2,200 gpm; that if a 21-inch well were drilled 800 feet, it might still be necessary to drill a second well, and the end result would be two wells at 1,000 or 1,200 gpm instead of one 2,200 gpm well.

The witness estimated the cost of drilling an additional well to be about 80% higher than the cost for the single well.

In summary, Giersch stated that the system currently requires about 1,000 gpm but is only producing approximately 900 gpm and is water deficient, especially in the summertime; that with a full buildout of the subdivision plus the present usage the total demand for water would be about 2,300 to 2,500 gpm. However, this 2,300 or 2,500 gpm flow contemplates that the system will be metered, and if it is not metered then Giersch expects the system would need an additional 500 gpm. The total demand then would be about 2,800 to 3,000 gpm. Furthermore, this latter figure includes no provision for fire flows. In order to provide fire flows, a factor would have to be added on to the figures shown above. Giersch stated he had not included fire flows because they are not required by the county or any agency.

Claudia Stanley testified that Ferraro's current conservation program is a voluntary one. Customers with even-numbered addresses have been asked to do their watering only on even-numbered days. Notices were sent to customers asking them to comply with the standards that were being required in the City of Madera, which was experiencing a severe water shortage. Pamphlets have been made available to customers explaining how conservation can be achieved and water conservation kits are available to customers seeking them. She stated that the system is in a designated low pressure area and Ferraro is only required to supply 25 pounds per square inch to his customers; but that once the improvements are made he would be willing to supply water at a higher level.

Gunter Redlin, a sanitary engineer with DHS, testified that sometime during 1980 DHS began to receive complaints concerning water outages and severe low pressure. DHS decided that, as a minimum, a new well should be drilled, one of significantly higher capacity than either of the two wells currently in service. DHS encouraged Ferraro to apply for the loan. Redlin believes that if the new well is constructed to produce 1,300 or 1,500 gpm and if the existing wells are jointly capable of producing 900 to 1,000 per minute, the new project will bring the system up to minimum standards. However, he questions whether the new well will be able to provide adequate water for a total subdivision buildout if water demands are as high as Giersch indicated. He stated that he was not aware until recently of how high these water demands would be under unmetered service. However, Redlin pointed out that DHS is primarily concerned with service for present, rather than future customers. He explained that the loan program exists in order to upgrade existing water systems to minimum standards, plus an allowance for reasonable growth. He stated that service at 40 pounds will be adequate for the existing system. Concerning the proposed auxiliary power system, Redlin stated that at the time DHS made its recommendation including this feature, it did not have the information testified to by Giersch, i.e., that the power outages which have occurred are neither very frequent nor long in duration.

Redlin further testified that DHS does not require that water companies provide metered service to their customers. However, it normally recommends metering when there is evidence that adequate water supply is hard to come by. Basically, Redlin took a neutral position with respect to the auxiliary supply, metering, and telemetering portions of the project. He agreed with Giersch that metering induces customers to use less water.

Claudia Stanley sponsored Exhibit 10, a statement concerning the costs involved in hiring meter readers for the system. She estimated it would require two full time readers to adequately handle Madera's service area. At a salary of $7.50 per hour this would amount to $31,200 per year excluding employer taxes, benefits, worker compensation insurance, etc. She noted that the cost of telemetering is about $3.50 per customer per month, or $21,000 per year, but that this cost will end when the loan is paid off, whereas meter readers' salaries will increase and never end. She testified that the chore of picking up telemeter readings at blockend could be done by one person in one day using the present staff. She believes that the long-term savings in power costs which would otherwise be passed through to customers in rate proceedings would pay for the metering and telemetering costs several times over.

Ed Crandall of DWR performed an analysis in connection with the proposed project. He stated DWR normally estimates that customers can reasonably pay for their water one percent of the median income in a community. In connection with this project, the recommended surcharge that customers could afford was based upon the rates in effect prior to the most recent increase. He stated that Madera could apply for a longer term loan than the 20 years originally contemplated -- up to as much as 35 years. Crandall explained a variety of safeguards in the program:

1. Plans must be approved by DHS.
2. Madera must solicit bids for all work over $10,000 and receive DWR's approval before awarding the bid.
3. The services of a fiscal agent to receive the surcharge must be secured. The fiscal agent must notify DWR whenever funds have not been deposited in accordance with the terms of the contract or when an attempt has been made to remove funds from the agent without approval.
4. DWR must receive a deed of trust on the Madera property.
5. A separate checking account must be established to handle the proceeds from the loan.
6. A registered engineer must certify that work is being completed in accordance with the approved contract.
7. DHS conducts a final inspection of the project before funds are released.
8. An audit is performed by the State Controller's Office of all funds dispersed to Madera.

Crandall stated that the requirement of a reserve in the contract is to insure that there are funds avilable to pay the loan in semi-annual payments. He testified that DWR does not require meters, although its policy is to encourage conservation and meters are acknowledged to be an effective tool for conservation. Crandall suggested that DWR reconsider the project costs, taking into consideration the recent rate increase to determine whether the total cost might now cause an unreasonable burden. He advised that if DWR concluded that auxiliary power, metering, and telemetering would place an unreasonable financial burden on its customers Madera could amend and resubmit its request. Crandall stated that the loan request could be modified by a letter with respect to both the length of the loan and the deletion of certain elements.

Staff witness C. Frank Filice sponsored Exhibit 13 and late-filed Exhibit 15. He explained that the improvements made under this loan will be permanently excluded from rate base for ratemaking purposes. Filice calculated the monthly surcharges which would be applicable on the basis of 20-, 30-, and 35-year 8½% loans. This information is shown in Table 1.

Table 1

	Monthly Surcharge		
Size of Service or Meter	20 Yrs.	30 Yrs.	35 Yrs.
5/8" x 3/4" meter or 3/4" flat rate service	$ 5.85	$ 5.20	$ 5.05
3/4" meter	8.80	7.80	7.60
1" meter or flat rate service (1)	14.65	13.00	12.65
1½" meter or flat rate service	29.25	26.00	25.25
2" meter	46.80	41.60	40.40

Filice explained that in the case before us, DWR is the so-called lender of last resort; that if Madera were to borrow money from a private bank or savings and loan institution it would pay twice the 8½% rate offered through DWR. He also testified that if Madera were to invest its own funds in order to improve the system, it would be entitled to a reasonable rate of return on the new rate base items. This, too, would cause a permanent increase in rates higher than the surcharge increases proposed here. Filice recommends that the surcharge begin approximately November 1, 1983 in order for Madera to accumulate sufficient funds to meet interest payments that will be due the DWR in July 1984.

The witness recommended with respect to the approximately 360 vacant lots presently located within the utility's service area, that a service fee charge be levied against owners of vacant or undeveloped lots. This service fee would be the accumulated total of the monthly loan surcharge provided in Madera's tariffs. He recommends that the maximum service fee should be the accumulation of three or five years of surcharges, due and payable upon connection of water service to the lot. The three-year accumulation would be contingent upon the loan being approved for 20 years; the five-year accumulation on a loan of either 30 or 35 years.

Filice proposed that if the Commission allows the utility to lift the moratorium on new customer connections, it be required to periodically adjust the surcharge to reflect any increases in the number of customer connections. The witness emphasized that the service fee should be applied to property being furnished water from the date the Commission authorizes a surcharge to become effective to the date of connection for water service.

The matter was submitted subject to the receipt from Crandall of revised recommendations concerning metering, telemetering, and auxiliary power, and also to receipt of a related late-filed exhibit from the staff prepared by Filice.

Crandall submitted his late-filed Exhibit 14 April 21. He determined that metering and telemetering would not be cost effective; that the cost would impose an unreasonable burden on the customers. He recommended that these two elements be deleted, and that the auxiliary power portion of the project be deleted also if DHS has no objection. (DHS had already taken a neutral position regarding the auxiliary power.) Crandall recommended a 30-year repayment term for the loan.

The staff's late-filed Exhibit 15 was received May 2. Page 4 of the exhibit shows the surcharges applicable for an 8½% loan of $373,044 for terms of 20, 30, and 35 years. 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. This amount excludes costs for auxiliary power, metering, and telemetering. Page 4 is reproduced below.

California Public Utilities Commission

Revised SDWBA Monthly Surcharge for
Madera Ranchos Water Company, Inc.,
Excluding Auxiliary Power, Metering, and
Telemetering from SDWBA Loan

Size of Service or Meter	Monthly Surcharge[1] 20-Year Term	30-Year Term	35-Year Term
5/8" x 3/4" meter or 3/4" flat rate service	$ 3.00	$ 2.65	$ 2.60
3/4" meter	4.50	4.00	3.90
1" meter or flat rate service	7.50	6.65	6.50
1½" meter or flat rate service	15.00	13.25	13.00
2" meter	24.00	21.20	20.80

[1] This surcharge is in addition to regular charges for water service.

Total amount of the SDWBA loan excluding 3% DWR administrative fee, $362,179.

Total amount of the SDWBA loan including 3% DWR administrative fee, $373,044.

By letter dated May 26 (Exhibit 16) Redlin advised that he had been in contact with Giersch, who informed him that the project could not be completed for the funding amounts originally recommended to him by Redlin in a letter dated April 12, 1983. Giersch's revised estimates and proposed revisions, to each of which Redlin either concurs or is neutral, are shown below:

Item		4/12/83 Recommendations		Proposed Revisions
9,470' of 8" water main		$ 80,500		$ 85,230[1]
Gate valves (25-8"0)		12,250		11,250[2]
Trench restoration		12,000		12,000
New well		161,000		147,000[3]
1 Gravel pack	$36,000		$50,000	
2 75 H.P. pump	50,000		25,000	
3 Well site improvements	12,000		12,000	
4 Well site piping	15,000		15,000	
5 Elecrical	15,000		18,000	
6 10,000 P.T.	15,000		15,000	
7 (3) Well meters	18,000		12,000	
20 Hydrants		15,000		15,000
40 Compaction tests		3,000		3,000
Rehabilitation of 2 existing wells		-		15,000[4]
25 Piping connections		-		10,000[5]
Construction Costs		283,750		298,480
Contingency		27,808		29,848[6]
Legal & administration		3,973		7,500[7]
Engineering		46,120		71,000[8]
Plan checking fee		500		500
Total Contract Work		362,151		407,328
DWR -3% Fee		10,865		12,220
Total Loan Amount		373,016		419,548

(Footnotes on the following page.)

Redlin notes the following in connection with the proposed revisions:

1 The piping cost has been reestimated at $9.00/foot instead of $8.50/foot.

2 The gate valve cost has been reduced by $1,000.

3 The original estimate for a 75 H.P pump was high. Although the new well now proposed will be deeper and wider and use a 150 H.P. pump, the new well cost estimate is a reduction of $14,000.

4 Rehabilitation of two wells, discussed at the hearing, is now recommended.

5 Twenty-five piping connections will be required to tie in new mains with existing mains.

6 An increased contingency fee is required due to increased construction costs.

7,8 DHS is not opposed to the legal and engineering costs shown in the proposed revisions.

Redlin points out that while the new total cost figure is approximately $46,000 higher than the one shown in his April 12 estimate, it is a reasonable proposal allowing for a much larger capacity pump and needed rehabilitation of existing wells.

Crandall, by letter dated June 21 (Exhibit 17) concurs with Redlin's latest proposal and recommends approval of a loan of $419,548.

In response to the DHS and DWR recommendations, the staff has submitted Exhibit 18, containing a revised surcharge for the recommended loan with a 30-year term. This final surcharge recommendation is shown below:

Revised SDWBA Monthly Surcharge for
Madera Ranchos Water Company, Inc.

Size of Service or Meter	Monthly Surcharge 30-Year Term
5/8" x 3/4" meter or 3/4" flat rate service	$ 3.00
3/4" meter	4.50
1" meter or flat rate service	7.50
1½" meter or flat rate service	15.00
2" meter	24.00

Discussion

While many of the proposed improvements are a definite necessity, a significant part of the originally contemplated expense can be saved by eliminating the three features deemed unnecessary by DHS, DWR, and the staff. These are the auxiliary power, metering and telemetering portions of the proposal.

Ferraro's customers incurred a 91% increase in rates effective November 3, 1982. To inflict a further increase of the magnitude requested in the application (88%) would be unconscionable unless absolutely necessary to maintain or bring the system to a safe, adequate level for the present customers. Such not being the case, we will authorize Madera to borrow from the State of California the sum specified in Exhibit 18 -- $419,548. None of these funds shall be authorized to establish auxiliary power, metering or telemetering services.

The staff recommended that a service fee be assessed against owners of vacant lots, such fee to be the accumulated total of monthly loan surcharges, with a maximum fee equal to the accumulation of five years of surcharges and payable upon connection of service. This recommendation appears reasonable and will be adopted.

Ferraro is presently required to file quarterly reports with our Hydraulic Branch on the status of his efforts to obtain additional sources of supply. This requirement, as well as the present service connection moratorium, will be continued under the authority transferred to the corporation.

Findings of Fact

1. The proposed water system improvements, except for auxiliary power, metering and telemetering, are needed to produce a healthful, reliable water supply.

2. A SDWBA loan of $419,548 for a term of 30 years at 8½% will provide low-cost capital for the system improvements specified in Exhibit 18.

3. The surcharges shown in Exhibit 18 will generate new revenues of approximately $43,200 per year, or a 47.2% increase per year, which will be used to meet the loan payment and accumulate, over a 10-year period, a reserve equal to two semi-annual loan payments, as required by DWR. Average customer rates will be increased by $7.50 per month.

4. The surcharges authorized should be in effect only as long as the SDWBA loan is outstanding. The surcharge payments should not be intermingled with other utility charges.

5. The surcharges are to be used only to amortize the SDWBA loan. The surcharges should be separately identified on customers' bills and the monies collected should be deposited in an interest-bearing account with the fiscal agent approved by DWR. Such deposits should be made within five working days after collection. The interest earned on the deposits should be used exclusively for the purpose of repayment of the SDWBA loan.

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

7. A balancing account should be established, to be credited with revenue collected through the surcharges, 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 surcharges should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

8. A service fee should be assessed against owners of vacant lots. This fee should be the accumulated total of monthly loan surcharges, and the maximum fee should be the accumulation of five years of surcharges, payable upon connection of water service.

9. 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.

10. To allow transfer and application for the loan funds as soon as possible, this order should be effective today.

Conclusions of Law

1. The proposed loan is for a proper purpose.

2. The increased rates and charges are just and reasonable.

3. The application should be granted to the extent set forth in the following order.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, but before October 1, 1983, Francis H. Ferraro may transfer to Madera Ranchos Water Company, Inc. (Madera) the water system and related assets referred to in the application.

2. Madera, in acquiring the water system and related assets, may assume the outstanding liabilities and issue not to exceed 1,000 shares of its no par value capital stock.

3. Madera shall file the reports required by General Order Series 24.

4. Upon compliance with all the terms and conditions of this order, Ferraro shall be relieved of his public utility obligations in connection with the water system transferred.

5. Madera is authorized to borrow from the State of California, to execute the proposed loan contract, $419,548 and to use the proceeds for the purposes specified in this decision.

6. On or after the effective date of this order, Madera 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 November 1, 1983.

7. Madera shall establish and maintain a balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made with the fiscal agent. The balancing account shall be reduced by payments 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 surcharges shall appear on each customer's water bill issued by Madera.

8. As a condition of the rate increase granted, Madera shall be responsible for refunding or applying on behalf of its customers any surplus accrued in the balancing account when ordered by the Commission.

9. Plant financed through the California Safe Drinking Water Bond Act of 1976 (SDWBA) loan shall be permanently excluded from rate base for ratemaking purposes.

10. A maximum service fee of $450 is set. This represents the accumulation of five years of the SDWBA surcharge.

11. To assure repayment of the loan, Madera shall deposit all rate surcharge revenue collected, in an interest-bearing account, with the fiscal agent approved by DWR. Such deposits shall be made within five working days after the surcharge monies are collected from customers.

12. Madera 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.

13. Madera shall not connect any new services to its system until authorized by the Commission.

14. Madera shall submit progress reports to the Commission's Hydraulic Branch every three months on the status of obtaining additional sources of water supply.

15. Madera shall establish and maintain a separate bank account to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR.

The authority granted by this decision to issue an evidence of indebtedness and to execute a loan contract will become effective when Madera pays $840 set by Public Utilities Code § 1904(b). In all other respects, this order is effective today.

Dated September 30, 1983, at San Francisco, California.

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

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

Joseph E. Bodovitz, Executive Director

Commissioner Priscilla C. Grew, being necessarily absent, did not participate.

Commissioner William T. Bagley, being necessarily absent, did not participate.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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APPENDIX A
Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The outer boundaries of the area served by the system are as follows: Bounded by Avenue 13 on the North and Road 38 on the East and Road 36 on the West with Avenue 11-1/2 on the South, Madera County.

RATES

	Per Meter Per Month Charge	Per Meter Per Month Surcharge	
			(N)
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft.	$ 0.20		
Over 300 cu.ft., per 100 cu.ft.	.26		
Service Charge:			
For 5/8 x 3/4-inch meter	6.00	$ 3.00	(N)
For 3/4-inch meter	6.50	4.50	
For 1-inch meter	11.00	7.50	
For 1 1/2-inch meter	15.00	15.00	
For 2-inch meter	20.00	24.00	

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 Application 82-12-44 before filing tariff. (N)

Schedule No. 2

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat residential water service.

TERRITORY

The outer boundaries of the area served by the system are as follows: Bounded by Avenue 13 on the North and Road 38 on the East and Road 36 on the West with Avenue 11-1/2 on the South, Madera County.

RATES

	Per Service Connection Per Month Charge	Per Service Connection Per Month Surcharge	
			(N)
For a single-family residence, including premises not exceeding 1/2 acres in area	$14.35	$7.50	
For each 100 sq.ft. of area in excess of 1/2 acre	.03	-	
For Commercial, other than Residential:			
For each office unit or retail establishment: 1-inch or Smaller	14.35	7.50	
1-1/2 inch	19.00	15.00	(N)

SPECIAL CONDITIONS

1. The above rates apply to service connections not larger than 1-1/2 inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters will be installed at option of utility or customer for above classification, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

FLAT RATE SURCHARGE (N)

NOTE: This surcharge is in adddition to the regular charge of $14.35 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 Application 82-12-44 before filing tariff. (N)

APPENDIX A
Page 3

Schedule No. 3

STATE BOND ACT LOAN FEE FOR UNDEVELOPED LOTS

APPLICABILITY

Applicable to undeveloped lots within the service area of Madera Ranchos Water Company, Inc., as of the effective date of Decision ____(a)____. (N)

TERRITORY

The outer boundaries of the area served by the system are as follows: Bounded by Avenue 13 on the North and Road 38 on the East and Road 36 on the West with Avenue 11-1/2 on the South, Madera County.

RATES

A service fee to provide for reduction of the SDWBA loan surcharges is chargeable to customers requesting future service to undeveloped lots.

The service fee shall be the accumulated total of the monthly surcharge provided for in Schedules 1 and 2, as applied to the property being furnished water service from the effective data of Decision ____(a)____ to the date of the connection. The maximum service fee shall be $450.00. The service fee shall be due and payable upon connection of water service to the lot. The surcharge authorized by the Commission, as contained in the Utility's filed tariffs, will apply thereafter.

The monthly surcharge established by the Puclic Utilities Commission in Decision ____(a)____ is subject to periodic adjustment. The calculation of the accumulated surcharges shall take into account such periodic adjustments.

a. Insert Decision Number in A.82-12-44 before filing tariff. (N)

(END OF APPENDIX A)

ALJ/rr/jt

Decision 83 09 078 SEP 30 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of Francis H. Ferraro, doing business as MADERA RANCHOS WATER CO., and MADERA RANCHOS WATER COMPANY, INC., a California corporation, for authority to sell and transfer his certificate of public convenience and necessity and related assets to MADERA RANCHOS WATER COMPANY, INC., and for the latter to issue and sell 1,000 shares of its capital stock and for the latter to borrow funds under the Safe Drinking Water Bond Act, and to add a surcharge to water rates to repay the principal and intrest on such loan.	Application 82-12-44 (Filed December 16, 1982)

Palmer & Willoughby, by Michael F. Willoughby, Attorney at Law, for Madera Ranchos Water Company, applicant.
Gunter A. Redlin, for California Department of Health Services; Edward Crandall, for Department of Water Resources; and Arlene Joyce Ellis, for Madera Ranchos Homeowner's Executive Board; interested parties.
Mary McKenzie, Attorney at Law, and C. Frank Filice, for the Commission staff.

O P I N I O N

Francis H. Ferraro, doing business as Madera Ranchos Water Company, requests authority to sell and transfer a certificate of public convenience and necessity and related assets to Madera Ranchos Water Company, Inc. (company), for the company to issue and sell 1,000 shares of its capital stock, to secure a loan under the Safe Drinking Water Bond Act (SDWBA) and to add a surcharge to its water rates in order to repay the principal and interest on the loan.

Duly noticed public and evidentiary hearings were held in Madera on April 5, 1983 and in San Francisco April 6, 1983.

Ferraro owns and operates a public utility water system authorized to provide service to two metered and 478 nonmetered customers situated near the City of Madera. Ferraro originally applied to the Department of Water Resources (DWR) for a loan under the SDWBA and requested authority from this Commission to borrow a maximum of $700,440 in order to effect necessary capital improvements to the system, thereby meeting water quality standards prescribed by Title 17 of the California Administrative Code and the Commission's General Order 103. He requested authority to repay the loan over a period of 20 years, and to increase rates for water service by a surcharge. Ferraro stated in his application that DWR had expressed the desire that he incorporate the system in order to facilitate the granting and servicing of the loan. He therefore has caused the system to be incorporated. If the application and surcharge are granted, increases in gross revenues would be as shown in the following tabulation:

(a)	Estimated 1982 Annual Gross Revenues at Present Rates	$ 91,500
(b)	Annual Surcharge Per This Application	81,044
(c)	Total	$172,544
(d)	Percentage Increase in Revenues Due to Surcharge	88.6%

The company would establish a balancing account which would be credited with revenues collected through the surcharge. The account would be charged with payments of interest and principal on the loan and the surcharge would be adjusted when authorized by the Commission, to reflect changes in the number of connections and/or overages or shortages in the balancing account.

The proposed plant improvements are set out below:

(a) Construct 8-inch water mains to provide a complete looped system to increse flow and pressure distribution for 4-inch mains and dead-end pipes.

(b) Construct a gravel pack well with a 75 horse-power pump.

(c) Construct a hydro-pneumatic tank for pump pressure and flow controls.

(d) Construct auxliary engine system for standby emergency power (none at present).

(e) Install fire hydrants in new water mains.

(f) Install meters for existing water users.

(g) Install telemetering for meter reading in high density area lots.

The costs for the various improvements are shown in the following tabulation:

	Description of Item	Estimated Cost	Work to be Performed by
(a)	Water Mains	$ 80,500.00	Contractor
(b)	Gate Valves	12,250.00	Contractor
(c)	Trench Restoration	12,000.00	Contractor
(d)	Well, Well Site Imp., Piping, Electrical, Hydro-tank, Meters, Pump and Appurtenances	161,000.00	Contractor
(e)	Fire Hydrants	15,000.00	Contractor
(f)	Compaction Tests	3,000.00	Contractor
(g)	Auxiliary Engine and Appurtenances	80,000.00	Contractor
(h)	Meters	75,000.00	Contractor
(i)	Telemetering	94,000000	Contractor
	Subtotal	$532,750.00	
	Contingency	52,250.00	
	Incidentals, Administration	7,500.00	
	Engineering	87,500.00	
	Total Contract Work	$680,000.00	
	Department of Water Resources Fees (3%)	20,400.00	
	Total Loan Amount	$700,400.00	

Public Hearing

At the public hearing segment of the proceeding held on April 5, six customers gave statements for the record. Generally these customers were opposed to the size of the increase coming, as it has, on the heels of an approximate 91% rate increase authorized Ferraro in 1982. In all about 20 customers attended the public hearing. The correspondence section of the formal file contains between 90 and 100 letters from customers, almost all of whom oppose some of the improvements requested in the application.

By Decision (D.) 82-11-024 dated November 3, 1982, we imposed on the company a service connection moratorium, due to the lack of adequate water pressure in the system. The Department of Health Services (DHS) had been receiving numerous complaints concerning low pressure and water outages.

Evidence

Robert Shell, a customer, sponsored Exhibit 1, a bid from a contractor dated July 1982 for a well, tank and pump in the amount of $63,257. The purpose of his exhibit was to point out the difference between the bid he received and the figure of $161,000 suggested by the engineering firm which would be engaged to do the work on this project. The bid shown in Exhibit 1 includes the cost for a 10,000-gallon storage tank. The bid for a 50,000-gallon storage tank which Shell asserts is far in excess of anything required, would bring the total bid to $120,000.

Counsel for Ferraro stated that Shell's bid may be based on some faulty assumptions (1) because it contemplates a 500-foot well whereas the company is thinking about an 850-foot well, and (2) the estimate is based on a pump that will produce 600 gallons per minute (gpm) whereas the company proposal includes a pump that will produce in excess of 1,000 gpm. He stated, however, that the state's DHS requires the contracts be put to bid and that anyone in the community who is qualified may participate in the bidding process.

Claudia Stanley sponsored Exhibit 2. She is office manager of the company and corporate secretary. In her prepared testimony she stated that she believes the meters are a requirement of DWR; that in order to effectively read the meters the telemetering system is necessary. She stated that in the opinion of their engineer Mr. Giersch, the auxiliary power proposed is not necessary and could be eliminated without materially affecting the quality of service.

Stanley testified that during each of the past three years one of the pumps has failed during the summer peak season; that it generally takes six to seven days to get it repaired; and that during the repair period many complaints are received concerning low water pressure.

Garold Giersch is the civil engineer retained by Ferraro for the purpose of preparing plans and specifications for the system improvement. He described two main problem areas:

1. Low pressures, caused by deadend lines and inadequate sized piping.
2. Deficiency in water supply during peak summer months.

He stated that it is also proposed to install some fire hydrants in those areas where there is presently no fire protection. He stated that in order to get a supply of between 1300 and 1500 gallons a minute it would probably be necessary to drill at least 800 to 850 feet and the well size would have to be 18 or 21 inches. He testified that if the system were unmetered, it would need at least 500 gallons a minute more than if it were metered.

Giersch stated that although his estimates for the project are valid to the best of his belief at the present time, they are really no more than estimates. A new estimate will be prepared when the project is finally determined, and that will be used to put the project out to bid. The witness stated further that in his opinion the auxiliary system originally included as part of the project improvement is unnecessary because Pacific Gas and Electric Company (PG&E) serves the area from two substations which are interconnected; therefore the likelihood of a power outage is minimal.

Giersch sponsored Exhibits 5 and 6. Exhibit 5 is a comparison of metered with unmetered systems in the Fresno-Madera area of the San Joaquin Valley. The five unmetered systems show gallons per day per person usage ranging from 251 to 325. The three metered systems indicate usages of 170 to 224 gallons per day per person.

Exhibit 6 is a graph portraying projected energy cost savings over a period of 35 years. It shows that the pumping cost at the present PG&E rate over 35 years, if the company is metered, will be about $731,000; whereas the cost for pumping the greater amount of water to the present unmetered system would be $1,077,000. The difference is about $345,000, and represents the difference in pumping 197 gallons, as opposed to 290 gallons per person per day. Over a 20-year period, the difference would be about $190,000; for 30 years, about $290,000. The cost for installing meters is presently estimated at $75,000; the cost for installing telemetering, $94,000.

Giersch testified that if the system were metered, adequate water supply to the service area could be supplied with a new well having a rating of about 1,300 to 1,500 gpm; but if unmetered, a larger capacity well would be required and instead of 1,500 gpm, between 2,000 and 2,200 gpm would be required. He stated he is familiar with the area, and that it is unlikely that a well could be developed that would produce 2,200 gpm; that if a 21-inch well were drilled 800 feet, it might still be necessary to drill a second well, and the end result would be two 1,000 or 1,200 gpm instead of one 2,200 gpm well.

The witness estimated the cost of drilling an additional well to be about 80% higher than the cost for the single well.

In summary, Giersch stated that the system currently requires about 1,000 gpm but is only producing approximately 900 gpm and is water deficient, especially in the summer time; that with a full buildout of the subdivision plus the present usage the total demand for water would be about 2,300 to 2,500 gpm. However, this 2,300 or 2,500 gpm flow contemplates that the system will be metered, service for present, rather than future customers. He explained that the loan program exists in order to upgrade existing water systems to minimum standards, plus an allowance for reasonable growth. He stated that service at 40 pounds will be adequate for the existing system. Concerning the proposed auxiliary power system, Redlin stated that at the time DHS made its recommendation including this feature, it did not have the information testified to by Giersch, i.e., that the power outages which have occurred are neither very frequent nor long in duration.

Redlin further testified that DHS does not require that water companies provide metered service to their customers. However, it normally recommends metering when there is evidence that adequate water supply is hard to come by. Basically, Redlin took a neutral position with respect to the auxiliary supply, metering, and telemetering portions of the project. He agreed with Giersch that metering induces customers to use less water.

Claudia Stanley sponsored Exhibit 10, a statement concerning the costs involved in hiring meter readers for the system. She estimated it would require two full time readers to adequately handle the company's service area. At a salary of $7.50 per hour this would amount to $31,200 per year excluding employer taxes, benefits, worker compensation insurance, etc. She noted that the cost of telemetering is about $3.50 per customer per month, or $21,000 per year; but that this cost will end when the loan is paid off, whereas meter readers' salaries will increase and never end. She testified that the chore of picking up telemeter readings at blockend could be done by one person in one day using the present staff. She believes that the long-term savings in power costs which would otherwise be passed through to customers in rate proceedings would pay for the metering and telemetering costs several times over.

Ed Crandall of DWR performed an analysis in connection with the proposed project. He stated DWR normally estimates that customers can reasonably pay for their water one percent of the median income in a community. In connection with this project, the recommended surcharge that customers could afford was based upon the rates in effect prior to the most recent increase. He stated that the company could apply for a longer term loan than the 20 years originally contemplated -- up to as much as 35 years. Crandall explained a variety of safeguards in the program:

1. Plans must be approved by DHS.
2. The company must solicit bids for all work over $10,000 and receive DWR's approval before awarding the bid.
3. The services of a fiscal agent to receive the surcharge must be secured. The fiscal agent must notify DWR whenever funds have not been deposited in accordance with the terms of the contract or when an attempt has been made to remove funds from the agent without approval.
4. DWR must receive a deed of trust on the company property.
5. A separate checking account must be established to handle the proceeds from the loan.
6. A registered engineer must certify that work is being completed in accordance with the approved contract.
7. DHS conducts a final inspection of the project before funds are released.
8. An audit is performed by the State Controller's Office of all funds dispersed to the company.

Crandall stated that the requirement of a reserve in the contract is to insure that there are funds avilable to pay the loan in semi-annual payments. He testified that DWR does not require meters, although its policy is to encourage conservation and meters are acknowledged to be an effective tool for conservation. Crandall suggested that DWR reconsider the project costs, taking into consideration the recent rate increase to determine whether the total cost might now cause an unreasonable burden. He advised that if DWR concluded that auxiliary power, metering, and telemetering would place an unreasonable financial burden on its customers the company could amend and resubmit its request. Crandall stated that the loan request could be modified by a letter with respect to both the length of the loan and the deletion of certain elements.

Staff witness C. Frank Filice sponsored Exhibit 13 and late-filed Exhibit 15. He explained that the improvements made under this loan will be permanently excluded from rate base for ratemaking purposes. Filice calculated the monthly surcharges which would be applicable on the basis of 20-, 30-, and 35-year 8½% loans. This information is shown in Table 1.

Table 1

Size of Service or Meter	Monthly Surcharge 20 Yrs.	30 Yrs.	35 Yrs.
5/8" x 3/4" meter or 3/4" flat rate service	$ 5.85	$ 5.20	$ 5.05
3/4" meter	8.80	7.80	7.60
1" meter or flat rate service (1)	14.65	13.00	12.65
1½" meter or flat rate service	29.25	26.00	25.25
2" meter	46.80	41.60	40.40

Filice explained that in the case before us, DWR is the so-called lender of last resort; that if the company were to borrow money from a private bank or savings and loan institution it would pay twice the 8½% rate offered through DWR. He also testified that if the company were to invest its own funds in order to improve the system, it would be entitled to a reasonable rate of return on the new rate base items. This, too, would cause a permanent increase in rates higher than the surcharge increases proposed here. Filice recommends that the surcharge begin approximately November 1, 1983 in order for the company to accumulate sufficient funds to meet interest payments that will be due the DWR in July 1984.

The witness recommended with respect to the approximately 360 vacant lots presently located within the utility's service area, that a service fee charge be levied against owners of vacant or undeveloped lots. This service fee would be the accumulated total of the monthly loan surcharge provided in the company's tariffs. He recommends that the maximum service fee should be the accumulation of three or five years of surcharges, due and payable upon connection of water service to the lot. The three-year accumulation would be contingent upon the loan being approved for 20 years; the five-year accumulation on a loan of either 30 or 35 years.

Filice proposed that if the Commission allows the utility to lift the moratorium on new customer connections, it be required to periodically adjust the surcharge to reflect any increses in the number of customer connections. The witness emphasized that the service fee should be applied to property being furnished water from the date the Commission authorizes a surcharge to become effective to the date of connection for water service.

The matter was submitted subject to the receipt from Crandall of revised recommendations concerning metering, telemetering, and auxiliary power, and also to receipt of a related late-filed exhibit from the staff prepared by Filice.

Crandall submitted his late-filed Exhibit 14 April 21. He determined that metering and telemetering would not be cost effective; that the cost would impose an unreasonable burden on the customers. He recommended that these two elements be deleted, and that the auxiliary power portion of the project be deleted also if DHS has no objection. (DHS had already taken a neutral position regarding the auxiliary power.) Crandall recommended a 30-year repayment term for the loan.

Redlin notes the following in connection with the proposed revisions:

1 The piping cost has been reestimated at $9.00/foot instead of $8.50/foot.

2 The gate valve cost has been reduced by $1,000.

3 The original estimate for a 75 H.P pump was high. Although the new well now proposed will be deeper and wider and use a 150 H.P. pump, the new well cost estimate is a reduction of $14,000.

4 Rehabilitation of two wells, discussed at the hearing, is now recommended.

5 Twenty-five piping connections will be required to tie in new with existing mains.

6 An increased contingency fee is required due to increased construction costs.

7, 8 DHS is not opposed to the legal and engineering costs shown in the proposed revisions.

Redlin points out that while the new total cost figure is approximately $46,000 higher than the one shown in his April 12 estimate, it is a reasonable proposal allowing for a much larger capacity pump and needed rehabilitation of existing wells.

Crandall, by letter dated June 21 (Exhibit 17) concurs with Redlin's latest proposal and recommends approval of a loan of $419,548.

In response to the DHS and DWR recommendations, the staff has submitted Exhibit 18, containing a revised surcharge for the recommended loan with a 30-year term. This final surcharge recommendation is shown below:

Revised SDWBA Monthly Surcharge for
Madera Ranchos Water Company, Inc.

Size of Service or Meter	Monthly Surcharge 30-Year Term
5/8" x 3/4" meter or 3/4" flat rate service	$ 3.00
3/4" meter	4.50
1" meter or flat rate service	7.50
1½" meter or flat rate service	15.00
2" meter	24.00

Discussion

While many of the proposed improvements are a definite necessity, a significant part of the originally contemplated expense can be saved by eliminating the three features deemed unnecessary by DHS, DWR, and the staff. These are the auxiliary power, metering and telemetering portions of the proposal.

Ferraro's customers incurred a 91% increase in rates effective November 3, 1982. To inflict a further increase of the magnitude requested in the application (88%) would be unconscionable unless absolutely necessary to maintain or bring the system to a safe, adequate level for the present customers. Such not being the case, we will authorize the company to borrow from the State of California the sum specified in Exhibit 18 -- $419,548. None of these funds shall be authorized to establish auxiliary power, metering or telemetering services.

The staff recommended that a service fee be assessed against owners of vacant lots, such fee to be the accumulated total of monthly loan surcharges, with a maximum fee equal to the accumulation of five years of surcharges and payable upon connection of service. This recommendation appears reasonable and will be adopted.

Ferraro is presently required to file quarterly reports with our Hydraulic Branch on the status of his efforts to obtain additional sources of supply. This requirement, as well as the present service connection moratorium, will be continued under the authority transferred to the corporation.

Findings of Fact

1. The proposed water system improvements, except for auxiliary power, metering and telemetering, are needed to produce a healthful, reliable water supply.

2. A SDWBA loan of $419,548 for a term of 30 years at 8½% will provide low-cost capital for the system improvements specified in Exhibit 18.

3. The surcharges shown in Exhibit 18 will generate new revenues of approximately $43,200 per year, which will be used to meet the loan payment and accumulate, over a 10-year period, a reserve equal to two semi-annual loan payments, as required by DWR. Average customer rates will be increased by $7.50 per month.

4. The surcharges authorized should be in effect only as long as the SDWBA loan is outstanding. The surcharge payments should not be intermingled with other utility charges.

5. The surcharges are to be used only to amortize the SDWBA loan. The surcharges should be separately identified on customers' bills and the monies collected should be deposited in an interest-bearing account with the fiscal agent approved by DWR. Such deposits should be made within five working days after collection. The interest earned on the deposits should be used exclusively for the purpose of repayment of the SDWBA loan.

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

7. A balancing account should be established, to be credited with revenue collected through the surcharges, 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 surcharges should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

8. A service fee should be assessed against owners of vacant lots. This fee should be the accumulated total of monthly loan surcharges, and the maximum fee should be the accumulation of five years of surcharges, payable upon connection of water service.

9. 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.

10. To allow transfer and application for the loan funds as soon as possible, this order should be effective today.

Conclusions of Law

1. The proposed loan is for a proper purpose.

2. The increased rates and charges are just and reasonable.

3. The application should be granted to the extent set forth in the following order.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, but before October 1, 1983, Francis H. Ferraro may transfer to Madera Ranchos Water Company, Inc. (company) the water system and related assets referred to in the application.

2. Company, in acquiring the water system and related assets, may assume the outstanding liabilities and issue not to exceed 1,000 shares of its no par value capital stock.

3. Company shall file the reports required by General Order Series 24.

4. Upon compliance with all the terms and conditions of this order, Ferraro shall be relieved of his public utility obligations in connection with the water system transferred.

4. Company is authorized to borrow from the State of California, to execute the proposed loan contract, $419,548 and to use the proceeds for the purposes specified in this decision.

6. On or after the effective date of this order, company 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 November 1, 1983.

7. Company shall establish and maintain a balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made with the fiscal agent. The balancing account shall be reduced by payments 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 surcharges shall appear on each customer's water bill issued by company.

8. As a condition of the rate increase granted, company shall be responsible for refunding or applying on behalf of its customers any surplus accrued in the balancing account when ordered by the Commission.

9. Plant financed through the California Safe Drinking Water Bond Act of 1976 (SDWBA) loan shall be permanently excluded from rate base for ratemaking purposes.

10. A maximum service fee of $450 is set. This represents the accumulation of five years of the SDWBA surcharge.

11. To assure repayment of the loan, company shall deposit all rate surcharge revenue collected, in an interest-bearing account, with the fiscal agent approved by DWR. Such deposits shall be made within five working days after the surcharge monies are collected from customers.

12. Company 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.

13. Company shall not connect any new services to its system until authorized by the Commission.

14. Company shall submit progress reports to the Commission's Hydraulic Branch every three months on the status of obtaining additional sources of water supply.

15. Company shall establish and maintain a separate bank account to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR.

The authority granted by this decision to issue an evidence of indebtedness and to execute a loan contract will become effective when company pays $840 set by Public Utilities Code § 1904(b). In all other respects, this order is effective today.

Dated SEP 30 1983, at San Francisco, California.

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

Commissioner Priscilla C. Grew, being necessarily absent, did not participate

Commissioner William T. Bagley being necessarily absent, did not participate.