

Decision 83 11 020 NOV 2 - 1983

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of RIDGECREST HEIGHTS LAND & WATER CO. 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 83-01-45  
(Filed January 20, 1983)

Wilbur H. Stark, for Ridgecrest Heights Land & Water Co., applicant.  
Edward Crandall, for California Department of Water Resources; James M. Windsor, for California Department of Health Services, Sanitary Engineering Branch, and Robert O. Carlton, for water company customers; interested parties.  
Mary McKenzie, Attorney at Law, C. Frank Filice, and Jasjit Sekhon, for the Commission staff.

O P I N I O N

Statement of Facts

By this application Ridgecrest Heights Land & Water Company (Ridgecrest), a California corporation owned by Wilbur H. (Stark) and Mary R. Stark,<sup>1</sup> seeks authority from the Commission to borrow up to \$1,498,000 through the California Department of Water Resources (Water Resources) under auspices of the Safe Drinking Water Bond Act (SDWBA) (Water Code Section 13850 et seq.), repayable over a 35-year period at an interest rate of 8.5 percent, and to increase present rates for water service by addition of a 112 percent surcharge, estimated to produce \$148,104 annually, to repay the principal and interest on such loan.

<sup>1</sup> Since deceased.

This application, the direct result of a Kern County Superior Court order, arises out of persistent service deficiencies of Ridgecrest which have drawn the attention both of the Commission and the California Department of Health Services (Health Services).

Initially known as the Rocket Town Water Company, Ridgecrest was organized in 1949 and financed by Trans-continental Land and Water Company, a subdivider, to provide public utility water service to certain of the developer's tracts in unincorporated areas west of the then unincorporated community of Ridgecrest in Wells Valley (See Appendix A map.)<sup>2</sup> The community came into being when the Navy built its Ordnance Test Station at adjacent China Lake, and thereafter mushroomed until today the city has a population in excess of 20,000. In 1961 the utility's name was first changed to its present appellation. In 1968 it was purchased by Northern Mojave Land, Inc., a California real estate development organization controlled by the Starks, and transacted its business under the Fictitious Business Name Statute as Ridgecrest Heights Water Company. In 1974 it again became Ridgecrest Heights Land and Water Company.

Since its inception in 1950 Ridgecrest has experienced supply and water pressure deficiencies that have resulted in substandard service, especially at higher elevations and during peak summer months. Commission orders to improve service and forbidding, without prior authority, extension of service to new areas, have largely been ignored.

In various proceedings as far back as 1977 Ridgecrest repeatedly has been ordered to employ professional engineering assistance and to formulate plans to correct deficiencies. In the process a moratorium on new service connections was imposed. Remedial plans were proposed but none implemented.

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<sup>2</sup> By Decision (D.) 43716 dated January 17, 1950 in Application (A.) 30483 this Commission granted a certificate of public convenience and necessity to Rocket Town Water Co., Inc. to construct and operate a public utility water system.

Funds for significant improvements have always been lacking. It is estimated that complete rehabilitation of the system to General Order (GO) 103 standards would require in excess of \$5,000,000. Small expenditures have been made but these have been frittered away in Rube Goldberg installations using second-hand or "best buy" materials without regard for suitability or optimum efficiency because of Stark's penchant for doing things his way (see D.89661 dated November 28, 1978 in Order Instituting Investigation 17 for details).<sup>3</sup>

In November of 1982 the Commission ordered Ridgecrest to pursue diligently a substantial loan under provisions of SDWBA, threatening in the alternative to go into Superior Court to have a receiver appointed to operate and manage the system (D.82-11-043, dated November 3, 1982). Meanwhile, Health Services, equally unsuccessful in obtaining improvements relating to health matters, issued an administrative order requiring Ridgecrest to furnish a detailed engineering report on certain improvements. When Ridgecrest failed to comply, Health went into Kern County Superior Court to obtain enforcement of its administrative order. The Superior Court ordered Ridgecrest, among other matters, to submit a professionally prepared engineering report on improvements and to apply for a SDWBA loan so that funds could be obtained to complete the recommended improvements.

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<sup>3</sup> As one complaining writer put it: "How long is the PUC going to let Wilbur Stark tinker and putter around?"

In response to the court order, Ridgecrest employed an engineer who prepared a new plan,<sup>4</sup> which, with minor changes, has been generally accepted by both our Hydraulic Branch and Health Services. Ridgecrest then filed its application for a SDWBA loan of \$1,498,000. Water Resources has earmarked this amount for Ridgecrest, subject to our approval.<sup>5</sup> Normally, in that we have already urged Ridgecrest to diligently seek an SDWBA loan, it would seem that our approval should be almost a ministerial act. But § 818 of the Code requires not only that the Commission approve the borrowing, but also that it find that, in the opinion of the Commission, the improvements to be obtained out of the proceeds of the loan are reasonably required for the purposes specified.

This application, submitted in response to the Superior Court's order, was filed January 20, 1983. However, processing of this application has been complicated by several ancillary matters. In recent years Ridgecrest has not been financially very successful. Between 1972 and 1980, in a period of escalating costs and inflationary pressures, as well as deteriorating service and problems relating to refund obligations arising from improperly collected connection fees, the utility received no rate increases. Several advice letter filings were deficient and had to be rejected.

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<sup>4</sup> The first engineer drawn plan, that of West Engineering, was considered inadequate by Health Services. Subsequently Stark employed Desert Engineering Company whose report of May 6, 1982 forms the basis of the SDWBA loan application.

<sup>5</sup> Under Public Utilities (PU) Code § 818, no public utility may incur indebtedness over periods of more than 12 months unless it first obtains authorization from the Commission.

However, in October of 1980, a 37.6 percent increase was authorized by the Commission, resulting in an aggregate charge of approximately \$11.32 per month for the average customer. Then, on November 1, 1982 Ridgecrest filed another advice letter, requesting a 30.8 percent increase which would bring that monthly charge to approximately \$13.50. Notice of this proposed increase sent to each customer drew one assenting and 11 protesting letters. After a study, staff concluded that the increase was necessary to cover reasonable operating expenses and would provide a rate of return of 2.6 percent. Accordingly, staff processed the advice letter for the Commission conference of April 6, 1983, where it was approved (Resolution No. W.3086).<sup>6</sup>

Subsequent to the filing of A.83-01-45, notice was sent to each of Ridgecrest's customers of the proposed SDWBA borrowing and its concomitant surcharge.<sup>7</sup> Eleven customers wrote in response. Nine opposed the proposal, wanting no surcharge. Of these, two stated

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<sup>6</sup> Prior to April 6, 1983, Health Services had expressed concern that the grant of this advice letter increase, coupled with the prospective SDWBA loan surcharge, might jeopardize ratepayer acceptance of the SDWBA loan proposal. In this instance the SDWBA loan surcharge would be quite substantial. Estimated at \$11.80 monthly per average customer, it would bring that customer's total monthly bill for water to \$25.30, including the concurrent advice letter increase. In view of these concerns Health Services had suggested that the advice letter increase be postponed until after the Commission approved the SDWBA loan application. Stark's attorney contacted Administrative Law Judge (ALJ) John B. Weiss, strongly protesting this suggestion and opposing any further delay in rate relief. The ALJ concurred with staff's determination that it would be inappropriate to defer the advice letter increase, and events were allowed to follow their natural sequence on April 6.

<sup>7</sup> Health Services had also suggested that in view of the acrimonious relationship which existed in recent years between the utility and the PUC and Health Services, a formal hearing process would be more appropriate than the informal public meeting format, and suggested dispensing with the usual preliminary public meeting. This was done. ✓

service was acceptable while others told of problems and some expressed distrust in Stark's ability to operate the utility. Two would accept a surcharge to improve service, but wanted that part of the loan tentatively proposed for metering to be applied more beneficially in replacement of leaking mains. A duly noticed public hearing was held March 22, 1983 in Ridgecrest before ALJ Weiss. Approximately 70 people attended. The record was held open until April 15, 1983 at the request of Stark for optional submission of closing briefs. Only Health Services submitted a brief.

At the hearing Stark and his engineer consultant Reynold Erickson of Desert Engineering, testified for Ridgecrest. Stark testified of having taken over an ailing system, of his investments in the utility and his role in its growth. He testified of pressure problems and identified the paramount problem as being the need for more water storage capability and the replacement of transmission lines. He did not deny that Ridgecrest needed a state loan, stating that in the past his repeated requests for rate relief have not been acted upon, that he cannot seem to get rate base credit for his additions, and that consequently the system has substantial operating losses. He asserted that he never has made any money from the system. He resents being dictated to and stated that he had wanted "to be solvent before I become a collection agent for the State." He inferred that the Indian Wells Valley Water District (District), the district serving Ridgecrest proper, is lurking behind recent pressures brought upon him; that it wants to acquire his utility, and that the District and Health Services are playing "hanky-panky" to that end, and "to the hilt". At the request of the ALJ, Stark identified the improvements contemplated, and other elements under the proposed SDWBA loan, as follows:

Installation of 5 - 200,000 gallon storage tanks	\$323,900
Meter all customers to conserve water	257,000
Installation of 7 new more efficient well pumps	232,300
Replace 20,880 ft. of distribution mains	234,600
Add a new well	79,800
Install production meters on all wells	12,100
Safety features	<u>10,000</u>
Estimated Cost of Improvements	1,149,700
Insurance	\$ 3,500
Accounting	15,000
Legal fees	25,000
Engineering and Permits	109,300
Inspection and Testing	19,200
10 Percent contingency	132,000
Associated Costs	304,000
State's Administrative Fee	<u>44,300</u>
Total Amount of SDWA Loan	\$1,498,000

Bricksen, who helped prepare the application, testified that there are 1,046 active customers (plus another 20 who don't always pay but manage to get water), and 1,950 vacant unserved lots adjacent to existing mains in the service area, resulting in potentially 1,592 connections (through lot combinations) over the next 20 years. Additional lots can be developed but would require main extensions. In preparing the application Bricksen proceeded on the assumption that metering would be adopted for all connections (at present the system is unmetered). With metering, lower average consumption (and reduced supply requirements) would be anticipated, allowing the utility to use existing undersized mains a while longer (for their remaining useful life). Without metering, plans would have to be modified, but the money could be used to replace leaking mains. In

any event, the system would be converted into an integrated system with 3 separate zones,<sup>8</sup> all pressurized to minimum GO 103 standards.

Our Hydraulic Branch staff entered a report and the testimony of Arthur B. Jarrett, Associate Utilities Engineer, into evidence supporting the application. Jarrett testified that the system improvements planned would be adequate to alleviate most of the low pressure and outage problems. But Jarrett pointed out that there still would remain about 100,000 feet of undersized 3- and 4-inch distribution mains incapable of meeting local fire flow requirements.<sup>9</sup> Much of this is 3-inch boiler tube piping in poor condition. Noting public statements against metering and the obvious fact that homes throughout the service territory do not tend to have lawns and use only basic amounts of water, Jarrett suggested that main replacements would be the most important contribution to improvement of the system. As an alternative to metering everyone, the utility could meter only the obvious larger users,<sup>10</sup> and use the bulk of the \$257,000 allocated for meters to replace more mains, concentrating on those areas where deteriorated mains are located, installing 6-inch or larger mains. This would alleviate the leakage problem, and add fire flow capability in many areas as well. Jarrett also urged that we require that all equipment (except for the 5 used storage tanks already purchased) be new, that all wells be designed by a licensed civil engineer, that all mains to which hydrants may be attached be 6-inches or larger, and that no less than 1 million gallons of storage capacity be installed.

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<sup>8</sup> At present there are 2 zones; one serving only 40 connections. But the latter has only one source of supply. The plan is to interconnect this source to the main distribution system to provide an alternative source of supply.

<sup>9</sup> The 1982 amendments to GO 103 recognized that there are widely varying conditions bearing on fire protection throughout the urban, suburban, and rural areas of California, and therefore allowed local deviations from the statewide averages listed in the land use list in Section VIII of GO 103 (See D.82-04-089 dated April 21, 1982 in Order Instituting Investigation 7).

<sup>10</sup> Under Schedule 2 R of the utility's tariff it already has the option of metering individual customers.



C. Frank Felice, Financial Examiner III in our Revenue Requirements Division, explained the financial and regulatory aspects involved in low cost SDWBA loans, explaining that surcharge revenues are held in a separate balancing account by an outside independent fiscal agent. He recommended that a service fee charge equal to the monthly SDWBA surcharge be accrued to a maximum of \$1,000 against each vacant or undeveloped lot within the service area of the utility, to be due and payable upon connection for water service. Felice noted that inasmuch as the smallest turbine-type meter is 3/4-inch, if the utility goes to meters, and the turbine-type is used instead of the wobble-type, the meter service surcharge per month for the 3/4-inch meter should also be \$11.80 (the same as that reported in staff's report as applicable for the 5/8 x 3/4-inch meter). Felice also testified that approval of this surcharge would not affect future rate or offset increases.

Edward Crandell of Water Resources in his testimony generally described the SDWBA operations. On cross-examination he stated that while Water Resources does not require metering, it does support metering if the quantity of water is a problem in a service area.

James M. Windsor, Sanitary Engineering Associate with Health Services, testified of the deficiencies in design and construction of Ridgecrest's wells, the antiquated pumping equipment, lack of any effective storage capacity, and the deteriorated distribution system, all of which result in outages, particularly

during the summer months. Windsor stated that because of limited ability to pay on the part of customers, it was not feasible to have service comparable to that of major metropolitan utilities, but that the improvements proposed would approach GO 103 standards except for fire flow. Use of 3 zones should make it possible to operate with more uniform pressure, but won't cure all the ills. He stated that Health Services' responsibility on SDWBA construction is to assure that the work is done according to the engineering plans. Similarly, if the metering funds were applied instead to replace additional mains, Health Services would also monitor that work.

Two public witnesses testified in support of the loan, Lora Ann George stating that if the loan meant system improvement, she was in favor, but that she wanted safeguards to assure that the work was done in the best way; the second, Ray Steffen, owns a lot but has been prevented by the moratorium from building on it.

Four public witnesses gave statements ranging from a complaint that the moratorium prevented building and that the company offered no emergency number, to concerns about metering.

#### Discussion

PU Code § 818 requires that before any public utility under our jurisdiction incurs indebtedness payable at periods of more than 12 months, it must secure from the Commission an order authorizing the borrowing. As we have seen, in November of 1982 (D.82-11-043) this Commission ordered Ridgecrest to pursue diligently a SDWBA loan. Prodded by that order and by a Superior Court order earlier obtained by Health Services, the utility has done so. Therefore, there is no real issue whether the Commission would approve an SDWBA loan to finance the urgently needed improvements that are proposed.

But the Code requires not only that the Commission approve the borrowing, but also that it find that the money to be borrowed is "reasonably required" for the purposes specified. For this reason we held our hearing on this matter. From the evidence obtained at that hearing we are convinced that the plan to rehabilitate portions of the Ridgecrest system, and to add one million gallons of storage capacity, is one that should do much to overcome the chronic pressure and outage problems that have plagued the customers of this high desert community. Therefore the money to be borrowed is "reasonably required".

At present Ridgecrest pumps from 7 wells directly into the system. Its only storage tank cannot be used because of its deteriorated condition. Accordingly there is no storage capacity. The 1,500 to 1,800 gallons per minute supply from the wells cannot meet summer peak demands, much less deliver the minimum pressure requirements of GO 103 in all areas of the system. The planned five 200,000-gallon storage tanks to be located at numbers 2 and 8 well sites should correct these deficiencies, providing for peak demands as well as emergency service in event of pump failure, and allowing for maintenance shutdown. Pumping facilities will be improved and augmented with suitable equipment to increase efficiency and provide reliable service. At present small-diameter deteriorated mains are a major contributing factor to low pressure, and cause water loss through leakage. A portion of the loan proceeds will be used to replace approximately 20,000 feet of those transmission mains which most require replacement.

It must be emphasized that except for the already purchased used storage tanks, all equipment purchased must be new, and that all new wells be designed by a licensed civil engineer.

We recognize that fire protection standards will still not be met throughout the system, but these are beyond the domestic use objectives of the SDWBA and must await other solutions.<sup>11</sup> As a result of improvements planned, domestic water supply will become more reliable, abundant, and of improved quality. Health Services has analyzed the public health issues and concurs with our staff engineers as to the need for the outlined plant improvements which would be provided by this infusion of SDWBA loan money. While the loan also would permit reasonable expansion of service within the existing service territory, it does not provide capability to provide service to all possible lots in the service area.<sup>12</sup> As soon as the improvements provided for by the loan are installed, Ridgecrest will be in a position to request that the Commission lift the moratorium on new connections. Hydraulic Branch supports such an outcome.<sup>13</sup> ✓

While the engineering report upon which the SDWBA loan application was predicated proposed metering all customers, and the benefits of metering generally are readily understood, both in terms of elemental fairness and conservation, this utility lies in a particular

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<sup>11</sup> The SDWBA states, inter alia, that water utilities failing to meet California Health and Safety Code standards and which are unable otherwise to finance necessary improvements to meet these standards may apply to Water Resources for low interest SDWBA loans. There is no provision for money for fire flow.

<sup>12</sup> SDWBA loans are intended to benefit present consumers and only incidentally provide for future expansion. The planned improvements under the SDWBA loan would permit extension of service to approximately 120 to 240 additional residential customers (Transcript p. 74).

<sup>13</sup> Transcript pp. 79, 100, and 101.

locale where metering may not be of top priority in terms of attaining an objective of improved service. There are few lawns, practically no swimming pools, and no evidence apparent to our ALJ (who toured the service area) of guttering or other wasteful habits.<sup>14</sup> The Water Resources' witness testified that while that Agency supports metering in instances where the quantity of water is the problem, in this application it would not require metering. Accordingly we find merit in our staff's proposal that as an alternative to metering, the \$257,000 earmarked for metering instead be used entirely or largely to replace additional deteriorated and leaking undersized mains.<sup>15</sup> Doing this would materially reduce the 100,000 feet of these inferior mains remaining, which could not be included for replacement under the original proposal. Certainly the utility can identify water wasters, or users of disproportionate amounts of water, if they exist, and correct the situation by installing meters on their services, having recourse to the provisions of Rule 16 of the utility's filed tariff which permits the utility to meter any flat rate service where there is unnecessary waste or misuse of water.

Water Resources has expressed its preference for the surcharge method of financing SDWBA loans. The Commission in Quincy Water Company (1978) 84 CPUC 79 addressed this issue and adopted this method, determining that capital charges of the loans should be offset by a quantity surcharge which lasts as long as the loan; that SDWBA

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<sup>14</sup> As a spokesman representing the consumers stated: "Most people give up trying to raise anything in their yard; it won't grow anyway. And with my experience, and experience of about every resident here, unless you pour an awful lot of money into the improvement of the ground, you can't raise anything. So my opinion is that very few people use very much water outside of their household needs in this town. So, I question the advisability of charging us for meters."

<sup>15</sup> The replacements would be of 6-inch or larger pipe to conform to GO 103 standards, thus conferring an additional benefit of improving fire flow capability at the same time.

loan charges should be separately identified on customer's bills, and that special accounting requirements should be adopted. The utility plant financed through the loan must be permanently excluded from rate base for ratemaking purposes and the depreciation on this utility plant should be recorded in memorandum accounts for income tax purposes only. To ensure adequate accountability of SDWBA loan funds advanced by Water Resources, these funds must be deposited in a separate bank account. Ridgecrest must also establish a balancing account to be credited with surcharge revenues and with interest earned on the funds from Water Resources deposited in the separate bank account. These surcharge revenues must be deposited in the special bank account 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. Periodically the surcharge should be adjusted to reflect changes in the number of water connections and for overages or shortages in the balancing account. These adjustments to the future surcharge rate should be accomplished by advice letter proceedings.

We dislike authorizing rate surcharges of this magnitude, particularly when the service has been unsatisfactory. However, the alternative is the probable ultimate complete breakdown of the system, leaving the customers without service. Furthermore, we deem it equitable that the costs of these extensive improvements be borne not only by the customers presently connected to the system, but also by future beneficiaries. As we stated in Waegener v Cedar Ridge Water Company (D.82-04-112 dated April 21, 1982 in Case 10991):

"It is clear that the availability of water enhances the value of the lots not yet connected to the system. Furthermore, when these lots are developed they will benefit from the improvements which were made from the proceeds of the loan. The benefits include water quality which meets health standards and better fire protection."

Ridgecrest has numerous vacant lots within its service territory. The owners of these lots must share in the costs, but not until connection of service.<sup>16</sup> We will authorize setting a lump sum connection charge payable upon connection, a charge equal to the scheduled monthly surcharge, accumulated to a maximum connection fee of \$1,000. Accordingly, if a connection is made the very first month after the surcharge applies (the month after the loan proceeds are received by the company from Water Resources), the customer simply begins to pay the monthly surcharge. For each month the connection is delayed after the surcharge applies, the connection fee accumulates to a maximum of \$1,000. Upon application for connection the customer must pay the lump sum connection charge. Thereafter, the customer pays the surcharge on the same basis as other customers.

One item remains. Throughout these proceedings Stark has vigorously made it clear that while he recognizes that an SDWBA loan is probably essential to upgrade Ridgecrest's physical plant, he objects to being relegated to the role of merely becoming the State's uncompensated collection agent. Here, by force of circumstance, Stark will be required by virtue of administrative and judicial pressures to accept an overwhelming amount of SDWBA paid-for plant which he then will be required faithfully to manage and maintain, and presumably some day find the means to replace. Ridgecrest, with a rate base after depreciation of approximately \$162,000, will add \$1,150,000 of SDWBA physical plant. But this additional plant which he must then manage adds nothing to rate base so he cannot earn on it

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<sup>16</sup> Until they receive public utility service the Commission has no jurisdiction over undeveloped lots (Waegener v Cedar Ridge Water Company, supra)

regardless of the time and efforts he might expend. He still will be expected to be on call at all times for managerial and operational decisions.

Nevertheless, there is Stark's past management record to reflect upon. The record relative to this utility is replete with repeated orders from this Commission, as well as from Health Services, that Stark undertake improvements as well as obtain professional engineering assistance and develop plans to rehabilitate Ridgecrest. Stark has largely either ignored these orders or has attempted on his own to patch up the system with Rube Goldberg additions. To be fair, it must be recognized that 15 years ago when Stark acquired the antiquated system, by present day GO 103 standards it was constructed of second-hand materials and equipment, undersized, and deficient in every respect. A land speculator's achievement, it stretched out over a large sparsely built-up suburban area. Nonetheless, for the most part Ridgecrest's customers have had



relatively cheap water, albeit without adequate pressure or sufficient volume to provide effective fire flows.<sup>17</sup> Hiring engineering assistance and drafting plans costs substantial up-front money, and past Commission orders for improvements have included little in rate increases to provide for such extraordinary expenses. The result has been impasse and confrontation with the customers suffering ever more debilitated service. Adequate service requires effective management and adequate funding.

While we cannot in this loan approval application provide a remedy for this management compensation issue raised by Stark, we give notice here that we expect it to be addressed in the next rate proceeding involving this utility.

Findings of Fact

1. Ridgecrest Heights Land and Water Company (Ridgecrest), a California corporation, is a public water utility under the jurisdiction of this Commission, furnishing domestic water service to a suburban service territory in the City of Ridgecrest, California.

2. Ridgecrest's physical plant was initially installed using materials and equipment today under GO 103 considered substandard or inadequate.

3. It is not presently economically feasible to upgrade the complete Ridgecrest system to GO 103 qualitative and fire flow standards.

4. Provided the proposed SDWBA funds earmarked for metering are instead used to replace existing leaking and inadequate mains, the proposed water system improvements are presently necessary in order to upgrade the system so that it will be capable of extracting and delivering adequate quantities of safe water to meet the requirements of Ridgecrest's domestic customers.

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<sup>17</sup> The adjacent District, apart from imposing a basic facilities charge (\$928 per rural single family dwelling) and a meter installation charge (\$200 for a 5/8" x 3/4" meter), charges a graduated quantity charge (ascending with the volume used) for water delivered (\$18 bi-monthly minimum for up to 2,000 cu.ft. for a 5/8" x 3/4" meter).

5. The SDWBA low cost loan of \$1,498,000 is a prudent means to acquire the funds needed to pay for the proposed water system improvements.

6. The proposed borrowing, as amended to delete metering, is for proper purposes, and the new materials and equipment and the labor to be procured from the proceeds of the loan are reasonably required for the purposes specified.

7. It is estimated that the proposed surcharge will initially generate \$148,104 annually, an amount sufficient to make the principal, interest, and necessary reserve payments on the SDWBA loan.

8. The establishment of a separate bank account by Ridgecrest is required to ensure accountability for deposits and disbursements of SDWBA related funds.

9. The SDWBA loan rate surcharge will increase water rates for an average flat-rate residential customer by approximately \$11.80 per month.

10. The SDWBA loan rate surcharge will continue until the SDWBA loan is fully repaid.

11. SDWBA loan rate surcharge collections must not be comingled with other utility collections.

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

13. Ridgecrest must establish a balancing account to be credited with surcharge collections and interest from the account, and from which payments of principal and interest on the SDWBA loan and the service charges of the fiscal agent will be paid.

14. In that undeveloped lots within Ridgecrest's service area will benefit from the improvements financed from the SDWBA loan, it is reasonable to accrue to each such lot a monthly connection fee accrual equal to the monthly surcharge (that would be applicable to such lot were it connected) to a maximum of \$1,000; such connection fee to be paid in full and credited to the balancing account at the time of application for service connection.

15. The increase in rates and charges authorized by this decision are justified and reasonable, and present rates and charges, to the extent that they differ from those authorized by this decision, are for the future unjust and unreasonable.

Conclusions of Law

1. Ridgecrest should be authorized to contract with the Department of Water Resources to borrow a sum not exceeding \$1,498,000 (at the interest rate to be determined) to be repaid in 35 years or less, to make improvements as set forth in this order to assure a continued supply of safe and potable water.

2. Ridgecrest should be authorized to repay the loan with a surcharge to rates, such surcharge to commence when the proceeds of the loan are received.

3. Because the improvements are urgently needed, and cannot be begun until the loan procedures are completed, the effective date of this decision should be today.

O R D E R

IT IS ORDERED that:

1. Ridgecrest Heights Land and Water Company (Ridgecrest) is authorized to borrow a sum not exceeding \$1,498,000 from the State of California under the Safe Drinking Water Bond Act (SDWBA), to execute the proposed loan contract with the California Department of Water Resources (Water Resources), and to use the proceeds for the purposes specified in A.83-01-45, except that the monies earmarked therein for metering shall be used instead for main replacements.

2. Upon execution of the Water Resources contract for the loan, approval of the loan, and receipt by Ridgecrest of the proceeds of the loan, Ridgecrest is authorized to file the revised tariff schedules attached to this order as Appendix B. The filing shall comply with General Order 96. Ridgecrest shall give at least five days' notice, by mail, to its customers, and may thereafter place the revised schedules into effect. The revised schedules shall apply only to service rendered on and after their effective date.

3. A separate statement showing the surcharge shall appear on each customer's water bill issued by Ridgecrest.

4. Ridgecrest 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 debited with payments of principal and interest made to Water Resources and for any charges for the services of the fiscal agent.

5. As a condition of the surcharge increase granted, Ridgecrest shall be responsible for refunding or applying on behalf of its customers any surplus accrued in the balancing account if and when ordered by the Commission.

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

7. To assure repayment of the loan, Ridgecrest shall deposit all rate surcharge moneys collected with the fiscal agent approved by Water Resources. Such deposits shall be made within 30 days after the surcharge moneys are collected from customers.

8. Ridgecrest shall file with the Commission (to the attention of the Assistant Director and Chief Accountant, Revenue Requirements Division) a copy of the Water Resources loan contract and a copy of the agreement with the authorized fiscal agent, within 30 days after these documents have been executed.

9. Ridgecrest shall establish and maintain a separate bank account to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by Water Resources to the utility.

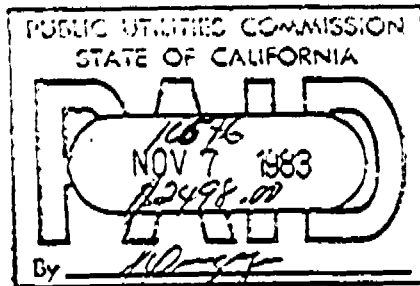
10. All rehabilitation construction work performed using SDWBA derived funds will be performed under the supervision of a licensed civil engineer.

11. The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract with Water Resources will become effective when the issuer pays to the Commission a fee of \$2,498, pursuant to PU Code § 1904(b). In all other respects, this order becomes effective today.

Dated NOV 2 1983, at San Francisco, California.

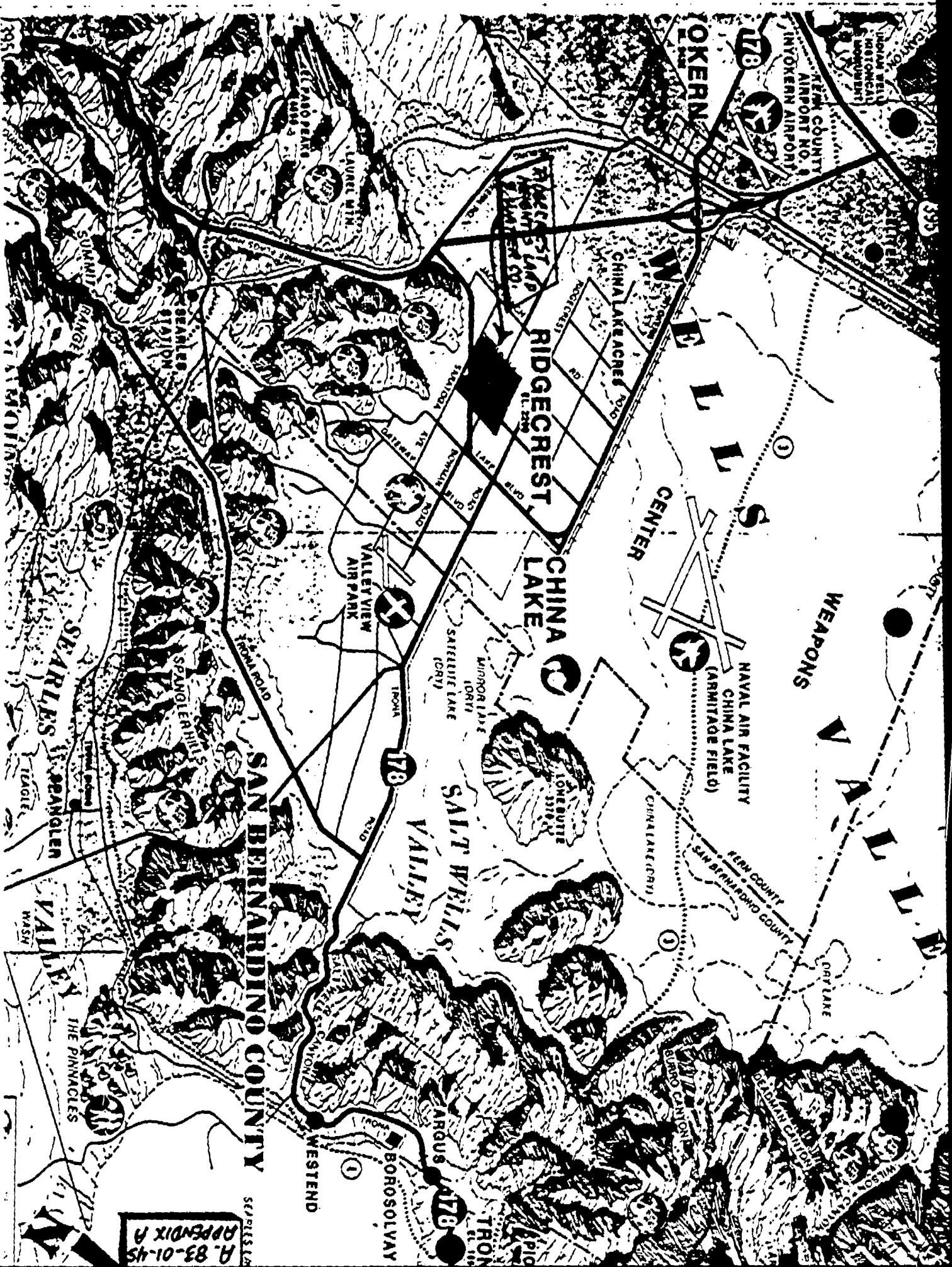
LEONARD M. GRIMES, JR.  
President  
VICTOR CALVO  
PRISCILLA C. CREW  
WILLIAM T. BAGLEY  
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.



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

*Joseph E. Bodovits*  
Joseph E. Bodovits, Executive Director



A. 83-01-45  
APPENDIX A

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NEW COUNTY AIRPORT NO. 2 (IN OVERTON AIRPORT)

WEAPONS

SALT WELLS VALLEY

WEST

CENTER

NAVAL AIR FACILITY  
CHINA LAKE  
(ARMITAGE FIELD)

RIDGECREST

CHINA LAKE

SALT WELLS VALLEY

SALT WELLS MOUNTAINS

ARGUS

BOROSOLVAY

WESTEND

SAN BERNARDINO COUNTY

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APPENDIX B  
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tracts Nos. 1466, 1494, 1520 and 1552, and vicinity located approximately 2 miles southwest of the community of Ridgecrest, Kern County.

RATES

	<u>Per Meter Per Month Charge</u>	<u>Per Meter <sup>1/</sup> Per Month Surcharge</u>	(N)
Service Charge:			
For 5/8 x 3/4-inch meter .....	\$ 4.55	\$11.80	
For 3/4-inch meter .....	5.00	11.80	
For 1-inch meter .....	6.80	29.50	
For 1 1/2-inch meter .....	9.10	59.00	
For 2-inch meter .....	12.20	94.40	(N)

Quantity Rates:

First 300 cu.-ft., per 100 cu.-ft. ....	\$ .40
Over 300 cu.-ft., per 100 cu.-ft. ....	.54

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

METERED SERVICE SURCHARGE

1/ 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.83-01-45 before filing tariff.

(N)

(N)

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Schedule No. 2 R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicability to all residential water service furnished on a flat rate basis.

TERRITORY

Tracts Nos. 1466, 1494, 1520, and 1552, and vicinity located approximately 2 miles southwest of the community of Ridgecrest, Kern County.

RATE

	<u>Per Service Connection Per Month Charge</u>	<u>Per Service Connection Per Month Surcharge</u>	
For each service connection .....	\$13.50	\$11.80	(N)

SPECIAL CONDITIONS

1. The above residential flat rate charge applies to service connections not larger than 1-inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter 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. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

FLAT RATE SERVICE SURCHARGE

NOTE:

This surcharge is in addition to the regular charge of \$13.50 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.83-01-45 before filing tariff.

(N)

(N)

(END OF APPENDIX B)



However, in October of 1980, a 37.6 percent increase was authorized by the Commission, resulting in an aggregate charge of approximately \$11.32 per month for the average customer. Then, on November 1, 1982 Ridgecrest filed another advice letter, requesting a 30.8 percent increase which would bring that monthly charge to approximately \$13.50. Notice of this proposed increase sent to each customer drew one assenting and 11 protesting letters. After a study, staff concluded that the increase was necessary to cover reasonable operating expenses and would provide a rate of return of 2.6 percent. Accordingly, staff processed the advice letter for the Commission conference of April 6, 1983, where it was approved (Resolution No. W.3086).<sup>6</sup>

Subsequent to the filing of A.83-01-45, notice was sent to each of Ridgecrest's customers of the proposed SDWBA borrowing and its concomitant surcharge.<sup>7</sup> Eleven customers wrote in response. Nine opposed the proposal, wanting no surcharge. Of these, two stated

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<sup>6</sup> Prior to April 6, 1983, Health Services had expressed concern that the grant of this advice letter increase, coupled with the prospective SDWBA loan surcharge, might jeopardize ratepayer acceptance of the SDWBA loan proposal. In this instance the SDWBA loan surcharge would be quite substantial. Estimated at \$11.80 monthly per average customer, it would bring that customer's total monthly bill for water to \$25.30, including the concurrent advice letter increase. In view of these concerns Health Services had suggested that the advice letter increase be postponed until after the Commission approved the SDWBA loan application. Stark's attorney contacted Administrative Law Judge (ALJ) John B. Weiss, strongly protesting this suggestion and opposing any further delay in rate relief. The ALJ concurred with staff's determination that it would be inappropriate to defer the advice letter increase, and events were allowed to follow their natural sequence on April 6.

<sup>7</sup> Health Services had also suggested that in viewing the acrimonious relationship which existed in recent years between the utility and the PUC and Health Services, a formal hearing process would be more appropriate than the informal public meeting format, and suggested dispensing with the usual preliminary public meeting. This was done.

during the summer months. Windsor stated that because of limited ability to pay on the part of customers, it was not feasible to have service comparable to that of major metropolitan utilities, but that the improvements proposed would approach GO 103 standards except for fire flow. Use of 3 zones should make it possible to operate with more uniform pressure, but won't cure all the ills. He stated that Health Services' responsibility on SDWBA construction is to assure that the work is done according to the engineering plans. Similarly, if the metering funds were applied instead to replace additional mains, Health Services would also monitor that work.

Two public witnesses testified in support of the loan, one (Lora Ann George) stating that if the loan meant system improvement, she was in favor, but that she wanted safeguards to assure that the work was done in the best way; the second (Ray Steffen) owns a lot but has been prevented by the moratorium from building on it.

Four public witnesses gave statements ranging from a complaint that the moratorium prevented building and that the company offered no emergency number, to concerns about metering.

#### Discussion

PU Code § 818 requires that before any public utility under our jurisdiction incurs indebtedness payable at periods of more than 12 months, it must secure from the Commission an order authorizing the borrowing. As we have seen, in November of 1982 (D.82-11-043) this Commission ordered Ridgecrest to pursue diligently a SDWBA loan. Prodded by that order and by a Superior Court order earlier obtained by Health Services, the utility has done so. Therefore, there is no real issue whether the Commission would approve an SDWBA loan to finance the urgently needed improvements that are proposed.

We recognize that fire protection standards will still not be met throughout the system, but these are beyond the domestic use objectives of the SDWBA and must await other solutions.<sup>11</sup> As a result of improvements planned, domestic water supply will become more reliable, abundant, and of improved quality. Health Services has analyzed the public health issues and concurs with our staff engineers as to the need for the outlined plant improvements which would be provided by this infusion of SDWBA loan money. While the loan also would permit reasonable expansion of service within the existing service territory, it does not provide capability to provide service to all possible lots in the service area.<sup>12</sup> As soon as the improvements provided for by the loan are installed, Ridgecrest will be in a position to request that the Commission lift the moratorium on new connections. Hydraulics Branch stop supports such an outcome.<sup>13</sup>

While the engineering report upon which the SDWBA loan application was predicated proposed metering all customers, and the benefits of metering generally are readily understood, both in terms of elemental fairness and conservation, this utility lies in a particular

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<sup>11</sup> The SDWBA states, inter alia, that water utilities failing to meet California Health and Safety Code standards and which are unable otherwise to finance necessary improvements to meet these standards may apply to Water Resources for low interest SDWBA loans. There is no provision for money for fire flow.

<sup>12</sup> SDWBA loans are intended to benefit present consumers and only incidentally provide for future expansion. The planned improvements under the SDWBA loan would permit extension of service to approximately 120 to 240 additional residential customers (Transcript p. 74).

<sup>13</sup> Transcript pp. 79, 100, and 101.

Ridgecrest has numerous vacant lots within its service territory. The owners of these lots must share in the costs, but not until connection of service.<sup>16</sup> We will authorize setting a lump sum connection charge payable upon connection, a charge equal to the scheduled monthly surcharge, accumulated to a maximum connection fee of \$1,000. Accordingly, if a connection is made the very first month after the surcharge applies (the month after the loan proceeds are received by the company from Water Resources), the customer simply begins to pay the monthly surcharge. For each month the connection is delayed after the surcharge applies, the connection fee accumulates to a maximum of \$1,000. Upon application for connection the customer must pay the lump sum connection charge. Thereafter, the customer pays the surcharge on the same basis as other customers.

One item remains. Throughout these proceedings Stark has vigorously made it clear that while he recognizes that an SDWBA loan is probably essential to upgrade Ridgecrest's physical plant, he objects to being relegated to the role of merely becoming the State's uncompensated collection agent. Here, by force of circumstance, Stark will be required by virtue of administrative and judicial pressures to accept an overwhelming amount of SDWBA paid-for plant which he then will be required faithfully to manage and maintain, and presumably some day find the means to replace. Ridgecrest, with a rate base after depreciation of approximately \$162,000, will add \$1,150,000 of SDWBA physical plant. But this additional plant which he must then manage adds nothing to rate base so he cannot earn on it

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<sup>16</sup> Until they receive public utility service the Commission has no jurisdiction over undeveloped lots (Waegener v Cedar Ridge Water Company, supra)

regardless of the time and efforts he might expend. He still will be expected to be on call at all times for managerial and operational decisions.

~~For his managerial efforts at present he is allocated an annual management salary of \$14,280. This amount, we observe, is less than that currently paid in the State service for senior clerical personnel. Where would management be obtained for a one and a third million dollar business for a clerk's salary? What incentive is there to undertake management of a far more capital intensive utility in which he owns only a tenth stake? These are questions which concern us. But on the other hand, <sup>nevertheless</sup> there is Stark's past management record to reflect upon.~~ R

The record relative to this utility is replete with repeated orders from this Commission, as well as from Health Services, that Stark undertake improvements as well as obtain professional engineering assistance and develop plans to rehabilitate Ridgecrest. Stark has largely either ignored these orders or has attempted on his own to patch up the system with Rube Goldberg additions. To be fair, it must be recognized that 15 years ago when Stark acquired the antiquated system, by present day GO 103 standards it was constructed of second-hand materials and equipment, undersized, and deficient in every respect. A land speculator's achievement, it stretched out over a large sparsely built-up suburban area. Nonetheless, for the most part Ridgecrest's customers have had

relatively cheap water, albeit without adequate pressure or sufficient volume to provide effective fire flows.<sup>17</sup> Hiring engineering assistance and drafting plans costs substantial up-front money, and past Commission orders for improvements have included little in rate increases to provide for such extraordinary expenses. The result has been impass<sup>e</sup> and confrontation with the customers suffering ever more debilitated service. Adequate service requires effective management and adequate funding.

While we cannot in this loan approval application provide a remedy for this management compensation issue raised by Stark, we give notice here that we expect it to be addressed in the next rate proceeding involving this utility.

Findings of Fact

1. Ridgecrest Heights Land and Water Company (Ridgecrest), a California corporation, is a public water utility under the jurisdiction of this Commission, furnishing domestic water service to a suburban service territory in the City of Ridgecrest, California.

2. Ridgecrest's physical plant was initially installed using materials and equipment today under GO 103 considered substandard or inadequate.

3. It is not presently economically feasible to upgrade the complete Ridgecrest system to GO 103 qualitative and fire flow standards.

4. Provided the proposed SDWBA funds earmarked for metering are instead used to replace existing leaking and inadequate mains, the proposed water system improvements are presently necessary in order to upgrade the system so that it will be capable of extracting and delivering adequate quantities of safe water to meet the requirements of Ridgecrest's domestic customers.

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<sup>17</sup> The adjacent District, apart from imposing a basic facilities charge (\$928 per rural single family dwelling) and a meter installation charge (\$200 for a 5/8" x 3/4" meter), charges a graduated quantity charge (ascending with the volume used) for water delivered (\$18 bi-monthly minimum for up to 2,000 cu-ft. for a 5/8" x 3/4" meter).