

ORIGINAL

Decision 83 12 003 DEC 7 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Mesa Crest Water Company, a)
California corporation, for)
authority to borrow additional)
money under the Safe Drinking)
Water Bond Act, and to add a)
revised surcharge to water rates)
to repay the principal and)
interest on such loan.)

Application 83-09-84
(Filed September 29, 1983)

O P I N I O N

By Decision (D.)82-04-016, dated April 6, 1982, in Application (A.)60892, the California Public Utilities Commission (Commission) authorized Mesa Crest Water Company (Mesa Crest) to borrow \$99,400 from the California Department of Water Resources (DWR) under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code 13850 et seq.). The proceeds of the SDWBA loan were to be used to finance water system improvements. The terms of the 7% SDWBA loan provided for a 15-year repayment schedule with equal semiannual payments of \$5,946, covering principal, interest, and reserve. Also, the Commission authorized Mesa Crest to institute a surcharge on existing customer rates to repay the principal and interest on the loan.

A.83-09-84 RR/TC/FS/WPSC

Upon receiving the decision, Mesa Crest immediately proceeded to prepare the SDWBA project plans and specifications. In August, 1982, Mesa Crest submitted to DWR documents needed to obtain funding for the SDWBA loan. DWR advised Mesa Crest that the SDWBA loan program was temporarily out of funds, because all money from the first sale of bonds had been distributed, and the sale of additional bonds had been delayed until interest rates dropped to the legal limits for California bonds.

In March, 1983, DWR gave notice to Mesa Crest that additional SDWBA bonds had been sold and funding was available.

In applying for the loan from DWR in August, 1982, Mesa Crest consulting engineer estimated the project to cost \$99,400. When the bids were opened on December 13, 1982, the low bid was \$138,540. Mesa Crest immediately requested and received a commitment from DWR for the additional \$39,140 needed for the SDWBA project.

Mesa Crest serves a total of 619 customers in its system. Also, there are approximately 84 undeveloped lots within its service area. A comparison of the original loan authorized by D.82-04-016 dated April 6, 1982, in A.60892 and the new loan authorized by DWR is set forth as follows:

<u>Loan Costs</u>	<u>Original</u>	<u>Revised Loan</u>
1. Amount of the loan	\$ 99,400	\$ 138,540
2. Interest rate	7%	7%
3. Annual debt service	11,862	16,956
4. Term of loan	15 years	15 years
5. Monthly surcharge	989	1,413

<u>Customer Surcharge</u>	<u>Monthly Surcharge</u>	<u>Revised Monthly Surcharge</u>
<u>Main System</u>		
5/8" x 3/4"	\$.70	\$ 1.00
3/4"	1.05	1.50
1"	1.75	2.50
1-1/2"	3.50	5.00
2"	5.60	8.00
3"	10.50	15.00
4"	17.50	25.00
6"	35.00	50.00

On September 29, 1983, Mesa Crest filed this application requesting that D.82-04-016 be modified to permit Mesa Crest to borrow the additional \$39,140 and to increase the rate surcharge to repay the SDWBA loan. Notice of filing for the revised loan appeared in the Commission's Daily Calendar of October 4, 1983.

At the direction of the Commission, Mesa Crest sent a notice to each customer on September 30, 1983, advising them of the need for the increased SDWBA loan and rate surcharge. The notice provided for customers wishing to express their comments to write to an assigned staff accountant. Three letters were received from customers. In summary they objected to the additional loan and

increased surcharge due to the effects of inflation on construction costs and omissions of items thought to be necessary, due to inadvertance.

The limited response from Mesa Crest's 619 customers is interpreted as expressing the same sentiments which were expressed at the public meeting held on September 29, 1981, in La Canada Flintridge, California, to discuss A.60892. At the meeting, the majority of the customers were in favor of improving the water quality and using SDWBA financing for the improvement project.

Based on the reported 1982 annual operating income of \$298,172, the proposed annual surcharge of \$16,956 required to service the 7% accrued interest and to amortize the \$138,540 principal additional loan over 15 years, would amount to an increase in the existing tariff rates for Mesa Crest of approximately 5.69%.

The SDWBA loan is clearly the most feasible and economic method of financing the needed additional cost of the improvement project. The Commission, therefore, will authorize Mesa Crest to enter into the proposed revised loan contract with DWR and institute the increased rate surcharge on customer bills to pay the loan.

The SDWBA loan repayment surcharge should be separately identified on customers' bills. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes and the depreciation on this plant should be recorded in memorandum accounts for income tax purposes only.

By adopting this surcharge method of accounting, the Commission does not imply that SDWBA-financed plant should be treated any differently in event of condemnation by a public agency than if such plant had been included in the utility's rate base and had been financed in some other manner.

Mesa Crest should maintain a balancing account to be credited with revenue collected through the surcharge and with interest earned on funds deposited with the fiscal agent. The balancing account should be charged with payments of interest and principal on the loan. The surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account. Such changes in future rates should be accomplished by normal advice letter procedures.

Although the rate of interest on the Proposition 3 funds are stated to be 7% at this time, the true interest rate will be recalculated at the time all of the State of California Safe

Drinking Water bonds have been sold. At that time, an average cost for the entire SDWBA program will be recalculated. Mesa Crest's loan interest rate will then be adjusted to the average. Utilities currently in the SDWBA program will, at that time, have the option to either:

1. Continue repaying the SDWBA loan at the contract rate, and extend the term until the equivalent of the adjusted interest rate has been paid; or
2. Increase the amount of semiannual payments so that the adjusted interest rate will be paid by the end of the term of the contract for the SDWBA loan.

It is appropriate to emphasize that the revised rate surcharge authorized will cover only the cost of the loan incurred to finance the added plant. It will not preclude the likelihood of future rate increase requests to cover rising costs of repair materials, wages, property taxes, power bills, or other operating expenses that may be incurred in the future.

In order for the surcharge to produce enough revenue to meet the initial payment on the SDWBA loan due on June 30, 1984, it is necessary for Mesa Crest to place the revised surcharge in effect beginning January 1, 1984. This will enable the utility to meet the June 30, 1984 payment and make the regular semiannual payments thereafter.

Findings of Fact

1. The proposed water system improvements are needed to produce a healthful, reliable water supply.

2. The SDWBA loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring an estimated \$138,500 including a 3% administrative charge by DWR.

3. The proposed borrowing is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the loan authorized by this decision is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

4. The proposed surcharge will generate approximately \$16,573 per year. Approximately \$15,066 will be used to meet the loan payment. The remaining \$1,507, which is approximately 10% of the loan payment, will remain deposited with the fiscal agent approved by DWR, in order to accumulate a reserve equal to two semiannual loan payments over a 10-year period. Deposits of the SDWBA surcharge should be made with the fiscal agent within 30 days after collection from customers.

5. The establishment of a reserve equal to two semiannual loan payments is required by DWR administrative regulations.

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

7. The rate surcharge will increase Mesa Crest's annual gross revenues by approximately \$16,956 and increase the water rates by approximately \$1.00 per month for an average residential customer with a 5/8-inch by 3/4-inch meter or 3/4-inch flat rate service. Water rates of residential or commercial customers with larger meter capacities would be increased proportionately.

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

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

10. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Mesa Crest should establish a balancing account to be credited with revenue collected through the surcharge, and with interest earned on funds deposited with the fiscal agent. The balancing account should be reduced by payments of principal and interest on the loan and with any charges for the services of the fiscal agent.

The rate surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

11. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are, for the future, unjust and unreasonable.

12. This revised surcharge should be placed in effect beginning January 1, 1984, to meet the initial payment due on June 30, 1984.

Conclusions of Law

1. The petition should be granted to the extent set forth in the following order because the revised rates are just and reasonable.

2. A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Mesa Crest Water Company (Mesa Crest) 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 30 days after the date of filing, and shall apply only to service rendered on or after November 2, 1982.

2. Mesa Crest is authorized to borrow \$138,540 from the State of California to execute the proposed loan contract and to use the proceeds for the purposes specified in the application.

3. Mesa Crest shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made to the fiscal agent. The balancing account shall be reduced by payment of principal and interest to the California Department of Water Resources (DWR) and by any charges for the services of the fiscal agent. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Mesa Crest.

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

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

6. To assure repayment of the loan, Mesa Crest shall deposit all rate surcharge revenue collected with the fiscal agent approved by DWR. Such deposits shall be made within 30 days after the surcharge moneys are collected from the customers.

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

8. Mesa Crest shall establish and maintain a separate bank account to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when the issuer pays \$79, set by PU Code Section 1904(b). In all other respects, this order becomes effective 30 days from today.

Dated DEC 7 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

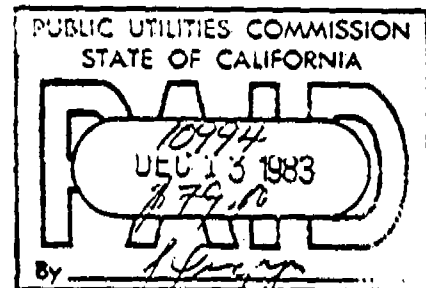
VICTOR CALVO

PRISCILLA C. GREW

DONALD VIAL

WILLIAM T. BAGLEY

Commissioners



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

[Signature]
Joseph E. Bodovitz, Executive Director

APPENDIX A
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The vicinity of La Canada, Los Angeles County.

RATES

Quantity Rates:

	<u>Per Meter Per Month</u>
First 300 cu. ft. or less -----	\$10.90
Over 300 cu. ft., per 100 cu. ft. -----	1.40

Minimum Charge:

	<u>Per Meter Per Month Charge</u>	<u>Per Meter Per Month Surcharge</u>	[N]
For 5/8 x 3/4-inch meter -----	\$10.90	\$ 1.00	 [N]
For 3/4-inch meter -----	14.30	1.50	
For 1-inch meter -----	17.00	2.50	
For 1-1/2-inch meter -----	24.00	5.00	
For 2-inch meter -----	35.00	8.00	
For 3-inch meter -----	54.00	15.00	
For 4-inch meter -----	86.00	25.00	
For 6-inch meter -----	170.00	50.00	

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

APPENDIX A
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Schedule No. 1

METERED SERVICE

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision (a) .

[a] Insert Decision Number in Application
83-09-84 before filing tariff.

[N]

[N]

(END OF APPENDIX A)