

Decision S3 12 004 DEC 7 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Cold Springs Water Company, Inc.)
a California Corporation, to borrow)
additional funds under the Safe)
Drinking Water Bonds Act and to use)
the existing surcharge to water)
rates to repay the principal and)
interest on such loan.)

Application 83-09-52
(Filed September 20, 1983)

O P I N I O N

By Decision (D.) 93138, dated June 2, 1981, in Application (A.) 60317, the California Public Utilities Commission (Commission) authorized Cold Springs Water Company, Inc. (Cold Springs) to borrow \$259,500 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 SDWBA loan provided for a 35-year repayment schedule with equal semiannual payments of \$10,980, covering principal, interest, and reserve at a rate of 7% per annum. Also, the Commission authorized Cold Springs to institute a surcharge on existing customer rates to repay the principal and interest on the loan.

Upon receiving the decision, Cold Springs immediately proceeded to prepare the SDWBA project plans and specifications and started work on the system improvements.

Delays were encountered due to unforeseeable events and because of the unusually severe weather conditions in the winter of 1981-82 and 1982-83 which increased construction costs.

The Health Department also requested additional equipment for turbidity testing and chemical treatment to control the (pH) values on finished water.

Additional costs were incurred in completing the installation of the new 420,000 gallon tank. In excavating a foundation for the tank, rock formations were encountered which required a change in the location of the tank with the attendant changes in piping, tank fittings, etc. A summary of the increased construction costs is as follows:

<u>Increased costs for materials between original cost estimates in 1981 and construction in 1983</u>	<u>\$ 5,074.90</u>
<u>Health Department Equipment Required</u>	
1 Digital pH Meter	\$ 350.00
1 Ratio Turbidity Meter	995.00
Soda Ash Treatment for pH Control	960.00
Sales Tax	<u>138.30</u>
	<u>\$ 2,443.30</u>
<u>Completion of 420,000 Gal. Storage Tank</u>	
Tank Fittings for Connection to System	\$ 3,286.00
11' x 11' Valve Housing Structure	3,630.00
Labor (160 hours @ \$8.00 per hour)	1,280.00
Pressure Pump and Tank	1,000.00
Electrical Control Panel and Pressure Switches	<u>2,000.00</u>
	<u>\$11,196.00</u>
Total Increased Cost	<u>\$18,714.20</u>

On September 20, 1983, Cold Springs filed this application requesting that D.93138 be modified to permit Cold Springs to borrow the additional \$19,000, totaling \$270,900, but not to increase the rate surcharge to repay the SDWBA loan. Notice of filing A. 83-09-52 appeared in the Commission's Daily Calendar of September 23, 1983.

Cold Springs is serving a total of 402 active customers with a minimum surcharge of \$5.00 per customer per month. This surcharge generates \$12,060 semi-annually. The debt service on the \$270,900 loan for 35 years at 7% is \$11,803 semi-annually, including principal, interest and reserve, so there is no need to increase the customer surcharge. A comparison of the original loan authorized by D.93138 dated June 2, 1981, in A.60317 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	\$251,900	\$270,900
2. Interest Rate	7%	7%
3. Annual Debt Service	10,980	11,800
4. Term of Loan	35 years	35 years
5. Monthly Surcharge	12,060	12,060
 <u>Customer Annual Surcharge</u>		
<u>Total System</u>		
5/8" x 3/4"	\$ 60.00	\$ 60.00
3/4"	90.00	90.00
1"	150.00	150.00
1-1/2"	300.00	300.00
2"	480.00	480.00
 <u>Flat Rate Service</u>		
3/4" Service	\$ 60.00	\$ 60.00

At the direction of the Commission, Cold Springs sent a notice to each customer on October 3, 1983, advising them of the need for the additional SDWBA loan and no increase in the rate surcharge. The notice provided for customers wishing to express their comments to write to an assigned staff accountant. No letters were received from the customers.

The absence of customer comments is interpreted as expressing the same sentiments which were received at the public meeting held on April 1, 1981, in Pinecrest, California, to discuss A.60317. At the meeting, the customers were overwhelmingly in favor of improving the water quality and using SDWBA financing for the improvement project.

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 Cold Springs to enter into the proposed revised loan contract with DWR but leave the same rate surcharge on customer bills to repay the loan.

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

Cold Springs 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 loan is 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. Cold Spring'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 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.

It is not necessary for Cold Springs to revise the current surcharge now in effect. The current surcharge in effect aided by customer growth should enable the utility to meet the regular semiannual payments as they become due.

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 \$270,900 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 \$27,072 per year. Approximately \$24,611 will be used to meet the loan payment. The remaining \$2,461 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 Cold Springs is required to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

7. Because of the growth in the number of customers, it will not be necessary to increase the surcharge now in effect.

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. Cold Springs 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 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. The surcharge now in effect should remain, unchanged, in order to enable Cold Springs to meet the semiannual payments when due.

Conclusions of Law

1. The application 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. Cold Springs is authorized to borrow an additional \$19,000 from the State of California to execute the amended proposed loan contract, now totaling \$270,900, and to use the proceeds for the purposes specified in the application.

2. Cold Springs shall continue to 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 Cold Springs.

2. Cold Springs shall continue to 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 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 Cold Springs.

3. As a condition of the loan authorization, Cold Springs shall be responsible for refunding or applying on behalf of its customers any surplus accrued in the balancing account when ordered by the Commission.

4. 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.

5. To assure repayment of the loan, Cold Springs shall continue to deposit all rate surcharge and revenue collected with the fiscal agent approved by DWR. Such deposits shall be made within 30 days after the surcharge and upfront cash payment moneys are collected from the customers.

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

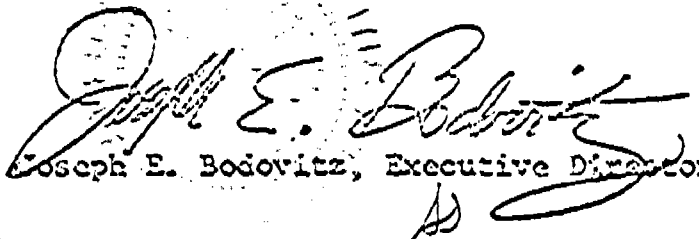
7. Cold Springs shall continue to and maintain a separate bank account, to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

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 \$38, set by PU Code Section 1904(b). In all other respects, this order is effective 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.


Joseph E. Bodovitz, Executive Director

