

fc *

ORIGINAL

Decision No. 88535 MAR 7 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Borrego Springs Water Company)
for authority to execute a contract)
with the State Department of Water)
Resources for a \$206,000 loan and)
to increase its rates for water)
service.)
Application No. 57698
(Filed November 21, 1977)

INTERIM OPINION

Applicant provides water service to a total of 589 customers in Borrego Springs, California. Applicant's present charges for water service were authorized by Resolution No. W-1912 on June 1, 1976 (Advice Letter No. 17).

The water supply is produced in four deep wells in the Borrego Valley. Until recent years the water supply was adequate in both quantity and quality. During the last two years, however, the nitrate level in Well No. 1 increased from less than 30 mg/liter to over 300 mg/liter. Well No. 4's nitrate level increased from about 2 mg/liter to 58 mg/liter. The California Department of Health found in March of 1976 that the nitrate levels in Well No. 4 exceeded permissible levels and recommended that the use of that well should be discontinued. The company had previously, on its own volition, discontinued the use of Well No. 1 for the same reason.

The transmission system does not have sufficient capacity to allow water to be transferred to Wells Nos. 2 and 3 to make up the loss of water from Wells Nos. 1 and 4. The situation therefore requires limited use of Well No. 4. Accordingly, the system is now being operated with insufficient capacity to meet peak demands; as

a result, many customers occasionally receive water with nitrate concentrations exceeding the 45 mg/liter limit imposed by law. As a result of these problems, the Borrego Springs Water Company voluntarily issued a notice to its customers advising them of the health risk produced by its supply problems. In addition to the problem of high nitrate concentration, parts of the system are plagued with leaks. Several sections require immediate replacement if larger quantities of water are to be transported from Wells Nos. 2 and 3 to the areas in need. Further, adequate storage must be provided so that the satisfactory wells can be operated to build up storage during off-peak periods. The applicant has devised a project to solve these problems. The project will provide only for the needs of the present service area. Applicant alleges that there are no alternative solutions available and that the proposed project appears to be the most feasible, economical solution to these problems. The elements of the project are:

1.	A 210,000-gallon storage tank	\$ 45,000
2.	9,500 feet of 8" pipeline to storage site ..	47,500
3.	10,000 feet of 6" pipe to interconnect Wells Nos. 2, 3, and 4	40,000
4.	12,000 feet of 6" pipeline to replace old mains	50,000
5.	Repairs to wells	6,000
6.	Engineering, legal, and administrative expense	6,000
7.	Environmental fee	1,000
8.	Administrative fee under Water Code Section 13862	6,000
	Total	\$201,500

The project can be undertaken as soon as funds are available to the applicant. The necessary environmental clearance has been received; delivery of pipe will take about four weeks and all pipe can be installed within five months. The storage tank can be installed within four months and the new well seals can be completed within six months. The Department of Water Resources (DWR) has set aside \$206,000 of Safe Drinking Water Bond Act funds for this project and will lend it to applicant at approximately 5.5 percent interest. Final arrangements for this loan can be processed as soon as this Commission has exercised its jurisdiction under Sections 816-830 of the Public Utilities Code.

Applicant is willing to undertake this loan with a 15-year repayment schedule now offered by the DWR. However, it would have no objection to a longer repayment schedule of up to 30 years, if available.

Applicant proposes to recover the principal and interest payments on the loan through a surcharge levied against customers as part of the monthly charge for water service, rather than seeking to earn a return and recover depreciation on the property. The amount of the proposed monthly surcharge would be directly proportional to the capacity of the customer's meter. For this purpose, all services would be rated on the basis of the capacity of an equivalent number of 5/8-inch meters; for example, a 1-inch meter would be charged 1-1/2 times the surcharge for a 5/8-inch meter.

Applicant proposes to establish a balancing account which would be credited with revenues collected through the proposed surcharge. Applicant would also credit the balancing account with any investment tax credits arising out of the project when such credits are utilized. The surcharge would be adjusted periodically.

to reflect changes in the number of connections or overages or shortages in the balancing account.

Assuming a 15-year loan and a 5.5 percent interest rate, the proposed customer surcharge would be about \$2.46 per month for each 5/8-inch meter. The revenue increase as proposed would add approximately 16.5 percent to applicant's gross revenues. There would be, of course, no increase in rate of return or return on equity.

Subsequent to the filing of the application, the Commission received a letter from applicant's civil engineer indicating that the company's Well No. 2 has collapsed and become inoperable. Only because of recent rainfall and cool weather and the resulting reduced water demands has applicant been able to maintain round-the-clock service throughout its service area. Applicant proposes to meet this emergency by diverting some portion of the loan to providing a new well. A productive new well would eliminate the need for some of the plant originally proposed to connect existing wells. It asserts that immediate action is needed if the company is to avoid widespread water outages.

The company proposes to begin drilling a new well within weeks. It asserts that an experienced, qualified well driller has been located who can move to the proposed well site quickly, if advised that funds are available for the work. Temporarily, the water company proposes to borrow approximately \$45,000 from the local bank, with a principal stockholder as a co-signer of the note. He is, however, willing to undertake this personal risk only if assured that the State of California agrees in advance that the company can pay off the bank loan first, ahead of the state loan, or that it can be repaid from the state loan when funds are available.

Local interest has been shown by a number of consumers except
as above. The engineer asserts that the water supply problems are
so well understood by the customers of the company that virtually
no public criticism is expected from responsible persons. Jackie King
Discussion has been conducted with respect to the project. Jacky King,
DWR, said "This is quite obviously an emergency situation. It would
appear advisable to avoid the extra delay that could be involved
in scheduling, conducting, and analyzing the results of a formal
public hearing, especially since it is apparent that the company has
no real alternative other than the project as modified and that the
proposed method of financing is by far the least expensive option
available. This does not appear to be some nefarious end or
plot."

The DWR has established a policy requiring applicants for
financing under the Safe Drinking Water Bond Act to demonstrate that
the consumers who are asked to fund the project have been fully informed
as to the details of the project, its cost, and its impact on individual
consumers. It also expects the consumers to be informed of any
available alternative courses of action. This requirement is intended
to enable those expected to ultimately bear the cost of the project
to have a voice in the decision as to whether the project should be
undertaken. We support this policy.

The Applicant conducted an informal town meeting on February 10,
1978. Appendix B sets forth the results of that meeting. It appears
that consumers understand the problems faced by applicant and are,
at least, grudgingly willing to support the project and resultant
rate increase. No formal hearing is necessary to approve the loan or
the rate surcharge. Certain questions concerning ratemaking treatment
may require hearing and further decision herein. I do not agree with
the above.

Those questions have been raised by the Commission's Utilities
Division. That Division is firmly committed to a policy under which all
property financed by Safe Drinking Water Bond Act loans would be incor-
porated into the subject utility's rate base; conventional ratemaking
techniques would be utilized to determine the amount and timing of

revenue requirements resulting from these plant additions. Under its proposal the total amount of money paid by the customers over the life of the property would be substantially more than the total of principal and interest payments to the DWRx. In most circumstances conventional ratemaking will require the consumer to pay more than the proposed surcharge during the early years of the loan. On the other hand, conventional ratemaking would extend consumer payments over a longer period, so that in certain years, at least, rates might be lower than under the surcharge proposal of applicant. It is difficult to say which method would be better. The Division has not yet completed its analysis and is unable at the present time to inform us of applicant's consumers as to the precise amount of revenue needed in each year under its rate proposal.

The rate proposal made by applicant has the advantage of obvious simplicity. Customers have no grounds for complaint since it can be easily demonstrated that applicant will not collect more than it must spend to finance the project. Applicant would find it difficult to claim that the offset increase is unfair to it since the surcharge will demonstrably provide enough revenue when needed to offset its payments to DWRx. As noted above, if below is even so.

Therefore, at least on an interim basis, we will adopt the offset-surcharge type of rate increase proposed by applicant and provisionally exclude the plant from rate base. We will, however, substitute a percentage surcharge for applicant's flat rate proposal; this modification will permit a rate structure which will preserve the present life-line and conservation effects of applicant's present rate structure. Using a 30-year life, the monthly payment for an average household should be slightly less than \$2.00 per month, depending on consumption. Please note and propose offset.

In this manner, applicant can be permitted to proceed with its immediately with its proposed project, and recoup at least the amounts needed to fund the project in a manner not significantly different.

To facilitate this, however, and to eliminate the possibility of future complications,

from that set forth in its published notice to subscribers. Consideration of the dispute over ratemaking can be postponed, permitting full public hearing and notice to consumers. Such hearing will give the Utilities Division an opportunity to explain to the Commission and to its customers the relative advantages and disadvantages of its proposal as compared to the proposal advanced by applicant.

We note that, under the applicant's proposal, the rate increase exactly offsets the payments due to DWR. Consequently, no special notice is required under Section 454(a) of the Public Utilities Code. This is an interim order. If any party wishes to be heard to support conventional ratemaking treatment of the new plant (in addition to the surcharge ordered herein), it will be necessary to give notice to customers under Section 454(a) of the Public Utilities Code. In addition to the Code and Rules of Practice and Procedure requirements, such notice should identify the proponent of the proposal and specify the changes in revenue requirement, both annual and total over the life of the plant financed by this loan. It is recommended that this be done. After resolution of the Quincy matter (Application No. 57406), the questions now pending may become moot. If so, a final order could issue without hearing.

Term of Loan been at viscosity of maceva roew e'assificca .
bedroom at Most, if not all, of the facilities to be constructed under this loan are expected to have a long useful life. A proposal which requires consumers to pay off the full cost of such facilities in the next 15 years may be relatively disadvantageous to most customers, particularly to the elderly. If the loan period could be extended to 30 years, the percentage surcharged from 16.7 percent would be reduced

msol s doce no domingos out seem ot sunover the little shivore
theching it to egrediorne case a bedmotive ed blondo greakcca .
solterso a tot 000,000 to msol maev-08 a no etremvac launde jecillo ot

-strengthen creditworthiness of existing buildings with no more than 10 percent. This would mean that applicant's elderly customers would pay a smaller percentage of the cost of facilities which will remain in service to benefit their grandchildren. On the other hand, we recognize that DWR cannot commit all of the available funds to long-term loans without possibly compromising the security of the bonds authorized by the Act, or paying a higher interest rate.

On advice after considering these factors, we will calculate the amount of increase authorized herein on the basis of a 30-year loan repayment schedule. If applicant is unable to obtain an extension of the repayment schedule, it may file an advice letter for an additional increase in any amount sufficient to meet the higher interest and principal payments under the shortened schedule. Below are some of the reasons. Our Finance Division staff has recommended that applicant should take straight-line remaining life on the new plant for income tax purposes. Its purpose is to minimize the differences between tax and ratemaking treatment of the new plant and to stabilize applicant's revenue requirement. Applicant has not objected to the proposal and it will be adopted as soon as possible upon adoption of the resolution.

We find that:

1. Applicant's water system is urgently in need of an additional reliable, safe water supply and the other system improvements described in the application. The least expensive, if feasible method of financing such improvements is by means of a Safe Drinking Water Bond Act loan from the State of California. The revenues generated by applicant's present rates will not provide sufficient revenue to meet the payments on such a loan.

4. Applicant should be authorized a rate surcharge of 11 percent to offset annual payments on a 30-year loan of \$206,000 for a duration

of 30 years. Any unneeded surpluses generated by the surcharge should be either refunded directly or used to reduce the surcharge. The surcharge should terminate after the last loan payment is made. The property thus financed should not be included in applicant's rate base.

5. The surcharge should be on a percentage basis. A flat surcharge would dilute the conservation and lifeline effects produced by applicant's rate structure.

6. No hearing is required at present. Applicant's customers have been informed as to the project benefits and its expected costs under the surcharge offset method; there have been no protests or request for hearing. This proceeding should be held open to allow the Utilities Division to present evidence and argument on its alternative proposal for ratemaking treatment.

7. Applicant should be required to establish a balancing account to be credited with all billed surcharge revenues and tax credits as used, and reduced by the amount of payments on the loan.

8. The proposed security issue is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the security 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.

9. Drilling a new well or refunding a loan, the proceeds of which were expended to drill a well, is a proper purpose.

10. Applicant should be required to take straight-line depreciation for income tax purposes.

11. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and

charges are not excessive, bearing only to those services supplied at rates which make service better off than to others.

charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable, pending a final Commission decision herein.

12. The public interest requires that work on the well be commenced as soon as possible; Ordering Paragraph 1 should therefore be made effective immediately. The rate increase will generate sufficient revenue to meet the first payment if it becomes effective on April 15, 1978.

We conclude that: The proposed rate increase should be granted on an interim basis to offset applicant's increased expenditures under the loan; no notice under Section 454(a) is required.

2. The loan should be authorized subject to the condition set forth in Finding 10.

3. The surcharge authorized herein is an offset to the loan payments. No special notice is required under Section 454(a) of the Public Utilities Code. Before the Commission can consider the conventional method, a Section 454(a) notice would be required.

IT IS ORDERED that:

1. On or after the effective date of this paragraph, Borrego Springs Water Company may issue a note in the sum of \$201,500 to the Department of Water Resources, the funds to be used only for the purposes specified in this decision or for refunding short-term loans already incurred for such purposes.

2. After the effective date of this paragraph, applicant is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A.

The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

3. Applicant shall establish a balancing account as specified in Finding 8.

4. The authority of Ordering Paragraph 1 is granted subject to the condition that for income tax purposes applicant shall take straight-line depreciation on the plant financed by said loan.

5. Until and unless the Commission orders otherwise by final order herein, the property financed by this loan shall not be included in the rate base.

The effective date of Ordering Paragraph 1 shall be the date hereof. The effective date of Ordering Paragraph 2 shall be April 15, 1978. In all other respects, this order shall be effective thirty days after the date hereof.

Dated at San Francisco, California, this 7th
day of MARCH, 1978.

Paul F. Baldwin
President
William J. Morris Jr.
Joseph L. Berger
John D. Shultz
Chairman
Commissioners

CONFIDENTIAL

SECRET

APPENDIX A

Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Borrego Valley and vicinity, San Diego County.

RATES

Quantity Rates:

	<u>Per Meter</u>
	<u>Per Month</u>
First 400 cu.ft. or less.....	\$ 3.00
Next 2,600 cu.ft., per 100 cu.ft.....	.40
Next 5,000 cu.ft., per 100 cu.ft.....	.36
Over 8,000 cu.ft., per 100 cu.ft.....	.30

Minimum Charge:

For 5/8 x 3/4-inch meter.....	\$ 3.00
For 3/4-inch meter.....	3.50
For 1-inch meter.....	5.00
For 1 1/2-inch meter.....	9.00
For 2-inch meter.....	14.00
For 3-inch meter.....	25.00
For 4-inch meter.....	40.00

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

SURCHARGE

A surcharge of 11.3 percent of the total water bill, computed from Schedule No. 1, Metered Service, shall be added to each water bill and collected for the purpose of repaying the Safe Drinking Water Bond Act Loan. (N)

SPECIAL CONDITION

Consumers requiring water in quantities amounting to over 8,000 cubic feet in any calendar month may be required to take water during off-peak hours for uses such as irrigating golf links, municipal parks, and for filling swimming pools.

APPENDIX B
Page 1 of 3

The following is a memorandum report on the public meeting of February 10, 1978.

February 14, 1978

M E M O R A N D U M

TO: MR. PARKE L. BONEYSTEELE
Director

Subject: Borrego Springs Water Co..
Application No. 57698 -
Public Meeting, February 10, 1978

A meeting to discuss plans for rehabilitating Borrego Springs Water System with the proceeds of a Safe Drinking Water Bond Act loan was held at the Youth Center in Borrego Springs on February 10, 1978 at 7:30 p.m.

The meeting was attended by 33 customers, and representatives of the water utility and concerned governmental agencies. Mr. Burmand opened the meeting and introduced the various representatives who were available to answer questions from the audience.

Perry Burmand - Treasurer, Borrego Springs Water Co.
Linden Burzell - Consulting Engineer, Borrego Springs Water Co.
John Gibbons - California Public Utilities Commission Staff.
Jane Kiyama - Dept. of Water Resources Staff.
Kirkham Campbell - State Public Health Dept. Staff.

Mr. L. Burzell led off with a detailed explanation of the various items in the proposed reconstruction program, the recent well failure, and the seriousness of the high nitrate problem. He then answered questions from the audience and explained why alternate proposals for solving the water problems were not feasible.

When Mr. Burzell concluded his explanations I stated that our engineering staff also had examined the utility's plans and had concluded that they were "prudent investments and were necessary to provide better service to the customers."

Next, I explained how a public meeting differed from a formal CPUC hearing, and that because of the need for prompt action under the emergency as represented to us, the Commissioners and the hearing officer assigned to this proceeding had directed me to attend the meeting and to report back to them the sentiments and views of those in attendance at the meeting. I emphasized that neither the Department of Water Resources nor the Public Utilities Commission had the slightest desire to shove an unpopular program down their throats; that this was the purpose of the meeting and that unless there was clear-cut public support, that there would be no ex-parte approval of the loan application. I then gave the audience the name and address of Judge Gilman and told them that if they preferred to put their views on

APPENDIX B
Page 2 of 3

Mr. P. L. Boneysteele
February 14, 1978

Page 2

the rate increase and plant reconstruction program in writing, or if they had neighbors who were unable to attend the meeting but had something to say, or if they themselves thought of something else after they left the meeting, that they could write to Judge Gilman. I stressed, however, that things were moving swiftly, and that if they were going to write, that they should do so without delay.

We turned next to a discussion of the various methods of financing the project and the impact that the project would have on rates. I commented that there was "no free lunch"; that regardless of the method of financing that ultimately was selected, the customers would end up paying the full and complete cost. I also pointed out that rate increases resulting from this project were in addition to any increases that they might have in the future as a result of increases in operating expenses or taxes experienced by the utility.

I explained that there were differences of opinion among the various parties as to whether it was preferable to finance the project by a surcharge, or through conventional ratemaking, and there were advantages to each. I avoided highlighting the differences because I saw nothing to be gained from it. I simply said that the ALG would consider all views, weigh the evidence, and make his recommendation to the Commission. I did underscore, however, that our staff engineers and accountants were united in opposing the 15-year loan period that had been proposed by the utility and accepted by DWR, as too short.

Miss Kiyama, representing DWR, was noncommittal, but she assured us that our views would be carried back to her Department.

Mr. Walter Straley, representing the Borrego Springs Community Association (membership, 250 homeowners; 1200 lot owners) stated that while there had been no formal canvass of the members, that they had discussed the project and the related rate increase, and that he was certain that they were wholeheartedly in favor of it. Mr. Straley also expressed his association's appreciation to DWR, CPUC and SPHD for their concern, and for sending representatives such long distances in such miserable weather to attend their meeting.

There were several letters from customers that had been sent in response to the announcement of the public meeting. The originals of these letters have been forwarded to Judge Gilman. Copies are attached to the original of this memorandum. One letter asked several questions about the project. I requested the utility to answer the letter, with a copy to Judge Gilman.

A-57698 fc

APPENDIX B
Page 3 of 3

Mr. P. L. Boneysteele
February 14, 1978

Page 3

I asked for a show of hands on whether or not the customers supported the project, and if they were prepared to pay an increase in rates of up to 20% to finance it. Everyone raised his hand in support. There were no dissenting votes.

The meeting broke up about 9:45 p.m.

John J. Gibbons
JOHN J. GIBBONS
Assistant Director