

ORIGINAL

Decision No. 88536 MAR 17 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 William and Delia Hay, dba Point  
 Arena Water Works, for authority to  
 borrow money to encumber utility  
 plant in connection therewith, and  
 to increase rates and charges for  
 water service in Point Arena and  
 vicinity, Mendocino County.

Application No. 57612  
 (Filed October 7, 1977)  
 amended December 12, 1977.

O P I N I O N

William Hay and Delia Hay, doing business as Point Arena Water Works, seek authority to borrow money, to encumber utility plant, and to increase rates for water service in Point Arena.

Applicants are an unincorporated proprietorship serving 155 customers in the city of Point Arena. Their present charges for water service were authorized by Resolution No. W-2248, September 18, 1977.

Applicants plan to borrow \$150,000 from the U.S. Small Business Administration, encumbering the water plant as security. They also seek to increase their present rates for water service in an amount sufficient to repay the principal and interest of the proposed loan. They have already submitted an application for a disaster loan to the U.S. Small Business Administration. Applicants have been informally advised by a representative of the Administration that funding will be made available in a very short time following the authorization by this Commission sought herein.

Applicants' present water supply for the city of Point Arena is obtained from eight shallow wells and small springs that ordinarily produce from 2 gpm to 15 gpm each. Under optimum

conditions this supply is barely sufficient to supply present customers, with no allowance for growth. During the recent drought the sources of supply produced less than half the water required to supply the community. Applicants attempted to meet some of the supply deficiency by hauling water by tank truck; however, it was not possible either physically or financially to import enough water to meet the needs of the community.

Applicants therefore developed plans to drill a well in the area of the Garcia River, about 2½ miles north of the city and to construct a pipeline to connect the new well to the existing system. The principal element of expense is the pipeline which will cost approximately \$145,000.

The loan from the U.S. Small Business Administration will provide for a 30-year repayment schedule with equal monthly payments of principal and interest at an interest rate of three percent per annum.

Applicants' plant is assertedly too small to provide security for a loan in this amount. It may be necessary for applicants to pledge their personal credit to obtain the required loan. They contend that by pledging their personal credit they will incur a sizable financial risk and will sharply restrict their ability to engage in other business ventures. For this reason the applicants originally asked that they be granted an additional increase equal to three percent of the year-end balance due on the loan for extending personal credit and also for managing the assets acquired by the loan. On December 12, 1977, applicants filed an Amendment to Application to delete from the application the request for an increase in rates to compensate them for extending their personal credit to secure the loan. Applicants indicate their desire to have this request considered in the next general rate proceeding. This issue will therefore not be considered in this decision.

The amount of the monthly surcharge to repay principal and interest of the loan will be in direct proportion to the capacity of each customer's meter. Monthly surcharges, excluding any allowance for extending personal credit, are shown in Table 1, below.

TABLE 1

Surcharge Schedule

<u>Meter Size</u>	<u>Equivalent 5/8" Meter</u>	<u>Monthly Surcharge</u>
5/8" x 3/4"	1	\$ 3.82
3/4"	1.5	5.73
1"	2.5	9.55
1-1/2"	5	19.10
2"	8	30.56

Applicants propose to establish a balancing account which would be credited with revenues collected through the proposed surcharge. The balancing account would be charged with payments of interest and principal on the loan. The balancing account would also be credited with investment tax credits arising out of the project as they are utilized.

Applicants have obtained permission from the county and the city to install the Garcia River pipeline in public roads. Applicants have obtained a permit from the State Division of Water Rights for authority to appropriate water from the river. The California Coastal Commission has already approved the entire project and the Mendocino County Health Department has approved use of the new well.

Discussion

It should be emphasized that applicants do not propose to borrow money under the California Safe Drinking Water Bond Act, and any decisions reached in this matter should not be taken as precedent for decisions on financing obtained under the Act.

As an experiment, the assigned Administrative Law Judge, instead of setting this matter for a formal trial-type hearing, urged the parties to convene a preliminary workshop-type public meeting. The purpose of such a meeting was to explain to consumers the various aspects of the proposal and to explore various alternatives, including a no-project alternative. The meeting was intended to cover all aspects of the proposal including construction, financing, and rate impact. It was felt that a more informal atmosphere would encourage consumers to ask any pertinent questions of the parties best able to answer them. In contrast, in a conventional hearing consumers may have to sit through several hours of questioning by attorneys, often finding that their own questions are unanswered. One further purpose of the meeting was to serve as a sampling of community opinion among those most interested, to determine if there were sufficient opposition to require a formal hearing. Other purposes were to quell rumors and to assure local consumers of our intense interest in assuring adequate service at a reasonable cost.

This meeting was held on November 16 at Point Arena in the evening. According to applicants' attorney, approximately 40 people attended and asked numerous questions on all aspects of the project. The meeting was attended by representatives of the utility including its attorney, a responsible officer of the U.S. Small Business Administration, the lender, and representatives of the staff's Finance Division and Hydraulic Branch.

The customers were informed that the county tax assessor had notified the applicants that property taxes on the new pipeline might be as much as \$4,350 per annum, or an average of about \$2.25 per month, per connection.

The customers were also informed that the project is intended to end the importing of water by truck in future water shortages.

It appears that the members of the public who participated were fully informed as to the various methods for requesting a hearing on an application such as this. No such requests have been received. The attorney's report of the meeting indicates there was widespread approval of the project and at least a grudging willingness to pay the associated cost. It further appears that the notice published by the company was an adequate notice. Consequently, we can determine there is no need for a public hearing in this matter.

We will postpone consideration of applicants' request for additional compensation for their additional management responsibilities and for pledging their personal credit in order to obtain this loan. Such a proposal raises novel issues and it may well be that a hearing will be required to resolve them. Consequently, we indicate that applicants have the right to raise this question in their next formal rate case.

The Utilities Division believes that a commodity based surcharge would be more equitable and would like to raise the question in applicants' next rate case. According to that Division, the U.S. Small Business Administration would have no objection to such a change, once normal consumption patterns have been reestablished, and the SBA is convinced that such a change would not reduce the security for the loan.

An essential feature of the rate structure we have authorized herein is a requirement that applicants set up a special balancing account. In this account, all revenue from the surcharge authorized herein and tax credits will be earmarked and offset against loan payments. If any substantial imbalance occurs in the account, applicants will be expected to make temporary adjustments as appropriate. Surcharge increases will be processed under General Order No. 96. If by any chance the fund builds up a substantial excess, a reduction in the amount of the surcharge or a refund proportional to meter size can be accomplished. While we will not designate a billing form, we think it would be appropriate for applicants' billings to separately state and identify the application of the surcharge funds.

We find that:

1. 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.
2. 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.
3. The rate surcharge authorized herein will increase applicants' annual gross revenues by approximately \$7,650 or 27 percent. No increase in return on equity is anticipated as a result of this rate increase.

4. Applicants should be required to maintain a balancing account to include tax credits, surcharge revenues, and all loan charges.

5. On an interim basis depreciation will not be recorded on applicants' books of accounts and the question of rate base treatment will be examined subsequently.

6. The question of management and guarantor compensation should be deferred.

We conclude that:

1. The application should be granted as set forth in the order which follows.

2. The issue of management and guarantor compensation should be determined in a subsequent proceeding.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicants William Hay and Delia Hay are 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.

2. Applicants are authorized to borrow funds in an amount not to exceed \$150,000 and execute notes therefor to the U.S. Small Business Administration for the purposes described in this proceeding.

3. Applicants shall account for all funds received by the surcharge specified above, all income tax credits attributable to the property purchased or constructed therewith and all payments of principal and interest in a special account. They shall report in writing to the Director of the Finance Division when a deficit or surplus in said account has exceeded \$600 for more than sixty days.

4. Because there is an urgent need for this financing this order shall be immediately effective.

5. Any overcollections shall be refunded to consumers or used to reduce surcharges as provided by subsequent orders of this Commission.

The effective date of this order is the date hereof.

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

Roluf Baklund  
President  
William J. ...  
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...  
...  
Commissioners

APPENDIX A

Schedule No. 1-X

GENERAL METERED SERVICE SURCHARGE

APPLICABILITY

Applicable to all metered service. This surcharge is specifically for the repayment of the Small Business Administration Loan as requested in Application No. 57612.

TERRITORY

The City of Point Arena and vicinity, Mendocino County.

LOAN REPAYMENT SURCHARGE

	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meter .....	\$ 3.82
For 3/4-inch meter .....	5.73
For 1-inch meter .....	9.55
For 1 1/2-inch meter .....	19.10
For 2-inch meter .....	30.56