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ORIGINAL

Decision No. 88834 MAY 16 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 Rio Plaza Water Company, Inc. for)
 authority to borrow money under the)
 California Safe Drinking Water Bond)
 Law of 1976, to encumber its assets)
 in connection therewith and to)
 increase its rates and charges for)
 water service within Rio Plaza)
 Subdivision in the vicinity of)
 El Rio, Ventura County.)

Application No. 57461
(Filed July 19, 1977)

INTERIM OPINION

Applicant's water system was originally installed in the Rio Plaza subdivision (of 513 homes) in the mid-1950's in connection with the original subdivision improvements. Because of soil conditions which exist in the subdivision, the company's mains have begun to deteriorate from electrolytic action and to leak at various points.

Sewage disposal for the homes in the subdivision is provided by means of backyard cesspools which discharge into leach lines near the water company mains. Thus, leaks and utility mains can pose a possible health hazard. The company has replaced over 2,400 feet of mains on a year-by-year basis since 1972 as its finances have permitted. However, its experience has shown that piecemeal replacement creates its own problems; after new segments of main are installed, electrolytic action on adjacent original mains seems to intensify.

On January 6, 1977 the applicant applied to the Department of Water Resources (DWR) for a loan under the Safe Drinking Water Bond Act. The \$360,500^{1/} to be thus acquired would be expended on replacing over 13,000 feet of old 6-, 8-, and 10-inch mains and 90 cross-street main laterals. The DWR in November of 1977 committed funds for such a loan subject to approval by the California Public Utilities Commission.

The applicant's present rates were authorized by the Commission in April 1974. At that time it was not contemplated the company would be able to obtain any outside financing for a project such as described. As a consequence, the company's present rates are not sufficient to enable it to repay the funds borrowed under the 1976 bond law; the annual payments on the loan would approximate \$24,672.62 if the loan period is 30 years and the interest 5.5 percent. The company has therefore proposed a rate increase in the form of a service charge of \$6 per month. In addition, it has asked for a two-step adjustment in the rates customers would be charged for the amounts of water they use. Initially the charge would be 27 cents per 100 cubic feet, increasing to 48 cents per 100 cubic feet when the project is completed.

In order to comply with DWR requirements for indication of consumer support for the project, the company has circulated a letter which describes the project, the financing, and the proposed rate increase. Two adverse comments have been received by this Commission in response to such letter. It nevertheless appears that no hearing is necessary at the present time.

^{1/} This sum is the amount committed to the project by DWR and includes an allowance for DWR's 3.0 percent administration fee.

Discussion

The application of Quincy Water Company (Application No. 57406) was intended to be the model case for determining how to dispose of applications such as this arising under the Safe Drinking Water Bond Act. In the meantime, we have authorized interim relief in one such proceeding (Decision No. 88535 dated March 7, 1978 in Application No. 57698, Application of Borrego Springs).

We intend to authorize the first step increase requested by applicant which should increase the cost to the average customer by \$3.65 per month. The billed surcharge revenue will be credited to a balancing account. Any income tax credits which are available to this company as a result of the construction thus financed will tentatively be treated as income.

Findings

1. Applicant's water system is urgently in need of the improvements described in the application which are necessary to assure an adequate supply of healthful drinking water to applicant's customers.
2. The least expensive, feasible method of financing such improvements is by means of a Safe Drinking Water Bond Act loan from the State of California.
3. The revenues generated by applicant's present rates will not provide sufficient revenue to meet the payments on such a loan. Applicant should be authorized to file revised rates to offset increased costs.
4. No hearing is required at present. Applicant's customers have been informed as to the project, its benefits, and its expected costs. There have been no protests or requests for hearing.

5. Applicant should be required to establish a balancing account reflecting the difference between revenues at present and revised rates and tax credits as used. The balancing account should be reduced by the amount of payments on the loan.

6. 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.

7. 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, pending a final Commission decision herein.

Conclusions

1. The increase as described above should be granted on an interim basis to offset applicant's increased expenditures under the loan.

2. The loan should be authorized subject to the condition set forth in Finding 5.

INTERIM ORDER

IT IS ORDERED that:

1. Applicant may issue a note in the sum of \$360,500 to the Department of Water Resources and to encumber its utility property as security for said note, 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. Applicant may file the revised rate schedules attached to this order as Appendix A when the sum of money expended on capital improvements exceeds 50 percent of the loan amount, as requested. Such filing shall comply with General Order No. 96-A. The staff shall confirm the magnitude of dollars expended and when satisfied shall prepare a resolution for the Commission's consideration and approval. The effective date of the revised schedules shall be the effective date of the resolution. 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 5.

The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 16th day of MAY, 1978.

Robert Batzoni
President
William Quinn Jr.
Gregory L. Sturgeon
Robert D. Howell
Clair L. DeRuil
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Rio Plaza subdivision in the vicinity of El Rio, Ventura County.

RATES

Quantity Rates:

	<u>Present</u> Per Meter <u>Per Month</u>		<u>Revised</u> Per Meter <u>Per Month</u>
First 700 cu.ft. or less	\$ 4.00	per 100	\$ 0.27
Next 1,300 cu.ft., per 100 cu.ft.29	per 100	0.27
Next 3,000 cu.ft., per 100 cu.ft.22	per 100	0.27
Over 5,000 cu.ft., per 100 cu.ft.18	per 100	0.27

	<u>Min. Chg.</u>	<u>Service Chg.</u>
For Short 3/4-inch meter (7.5-inch length)..	\$ 4.00	\$ 6.00
For 1-inch meter	6.00	8.20
For 1-1/2-inch meter	10.00	11.40
For 2-inch meter	15.00	14.70
For 3-inch meter	20.00	27.25
For 4-inch meter	35.00	37.00

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