

ORIGINAL

Decision No. 88945 JUN 13 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Winton Water Company for approval of a loan contract with the State Department of Water Resources and related rate increases.

Application No. 57771  
(Filed December 27, 1977)

Investigation on the Commission's own motion into the rates, operations, practices, service, equipment, facilities, rules, regulations, contracts and water supply of Winton Water Company, Inc., respondent.

Case No. 10397  
(Filed August 23, 1977)

Samuel A. Sperry, Attorney at Law, for Winton Water Company, Inc., applicant and respondent.

Warren A. Palmer, Attorney at Law, for Winton Manor Mutual Water Company, Yosemite Glass Company, Howard McCullough, and Bud Raymond; and Harold T. Cook, for Department of Water Resources, State of California; interested parties.

Peter G. Fairchild, Attorney at Law, James M. Barnes, and Henry A. Angerbauer, for the Commission staff.

INTERIM OPINION

Winton Water Company, Inc. (Winton Water) is a public utility furnishing water to about 1,250 flat rate customers in the unincorporated community of Winton in Merced County.

In Application No. 57771, Winton Water seeks approval of a \$587,100 loan from the State of California Department of

Water Resources (DWR) under the California Safe Drinking Water Bond Act of 1976 (Bond Act).<sup>1/</sup> Winton Water also seeks a surcharge rate sufficient to repay the principal amount and interest computed at 5½ percent over a period of 20 years. The annual debt service is estimated to be \$48,800. The requested surcharge is \$3.70 per month.

Case No. 10397 is an investigation on the Commission's own motion into the practices, facilities, and water supply of Winton Water. The investigation was initiated because of the

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<sup>1/</sup> In 1976 the electorate of the State of California voted the California Safe Drinking Water Bond Act of 1976 into law. This law provides, among other things, that water utilities whose water systems fail to meet the California Health and Safety Code standards and who could not otherwise obtain funds to make the improvement may make application to the State Department of Public Health and the State Department of Water Resources (DWR) for low interest rate loans. Applications for such loans are processed first by the State Department of Public Health to qualify on the basis of public health need and then by the DWR to qualify on the basis of need for financial assistance. The DWR acts as the lending agency and fiscal administrator. As conditions precedent to granting the loan, applicant must demonstrate to the DWR its ability to repay the loan and the applicant must institute measures that will maximize water conservation.

The purpose of Application No. 57771 is to obtain such authorizations from the Public Utilities Commission as are necessary to comply with the Public Utilities Code and the DWR requirements to qualify for a loan. The requests herein include: (1) authority to execute a loan contract with the DWR, (2) to incur indebtedness of \$570,000, and (3) to increase rates to recover the debt service of principal and interest on the proposed loan. The standard form loan contract is attached as Exhibit C. The improvements to be financed by the loan and the estimated costs are as set forth in Exhibit D to the application.

numerous informal complaints from customers of Winton Water concerning lack of water pressure and poor quality water.

Hearings in the application and investigation proceedings were held on a consolidated record before Administrative Law Judge J. W. Mallory in Winton on May 2, 3, and 4, 1978.<sup>2/</sup> The matters were submitted on May 18, 1978 upon the receipt of late-filed exhibits of the State of California Department of Public Health (DPH) and the staff of the Commission's Hydraulic Branch.

Exhibits 1 and 2 in Case No. 10397 introduced by representatives of the Commission's Utilities Division - Hydraulic Branch outline the staff investigation into the operations of Winton Water and contain several specific recommendations for improvement of service. Testimony was also received from public witnesses concerning alleged deficiencies in the services and operation of Winton Water.

In Application No. 57771, evidence was presented by a consulting civil engineer employed by Winton Water and by Winton Water's president with respect to the planned improvements that are to be made upon the approval of the Bond Act loan. Winton's president also testified with respect to the manner in which Winton Water proposes to increase its revenue to recover the related debt service expenses. Witnesses appearing for DPH and DWR presented recommendations concerning the improvement to be financed by the Bond Act funds.

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<sup>2/</sup> The original hearings in Case No. 10397 on January 17 and 18, 1978 were held on a consolidated record with Case No. 10407 - Winton Manor Mutual Water Company v Winton Water Company, Inc. in which the Mutual seeks an order declaring that certain subdivisions are not within Winton Water's service area. That complaint is submitted.

Two staff witnesses proposed alternative means of increasing rates to recover debt service expenses. A financial examiner appearing for the Commission's Finance Division presented factual data and recommendations in support of the surcharge method. An engineer from the Commission's Hydraulic Branch presented evidence to support the so-called conventional ratemaking approach. DWR supported the surcharge method.

Public Support for the Project

Several public witnesses testified in the application proceeding. The consensus of that testimony is that the proposed project is necessary in order to provide adequate service. Only token opposition to the project was made in the form of disapproval of unnecessary expenditures which would inordinately raise rates. One of the public witnesses asked that the loan funds originally earmarked for metering of residential customers not be spent for other purposes in order to reduce the financial impact on residential customers.

Metering

The schedule of proposed improvements and estimated cost set forth as Exhibit D to the application includes \$110,000 for the installation of 1,000 meters.

In response to the directive contained in Decision No. 88692,<sup>3/</sup> applicant and the staff presented data with respect

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<sup>3/</sup> In Decision No. 88692 dated April 11, 1978 in Case No. 10114, the Commission rescinded an order that all Class A and B flat rate water utilities should be metered within a period of 3½ years, and ordered that such utilities shall include, as part of any general rate proceeding, an analysis of the costs and benefits of converting various described classes of existing flat rate services to metered service.

to the costs and benefits of converting the existing flat rate system to a metered system. It was applicant's conclusion that the estimated installation cost of \$110 per meter would not be offset by the conservation or other benefits to be achieved therefrom.

Witnesses in the application phase of this proceeding and in the earlier phase (Footnote 2) testified strongly in opposition to the metering of residential services. In face of strong opposition to residential metering expressed by its customers and by Assemblyman John E. Thurman, in whose district the water system is located, Winton Water, with the approval of DWR, eliminated the installation of meters from its schedule of proposed improvements.

~~It was the recommendation of the staff engineer that commercial services be metered to prevent excessive use by larger water customers and to prevent discrimination against residential customers.~~ 7/4/71 ✓

#### Service Improvements

Public witnesses, the applicant, the Commission staff, DPH, and DWR are in general agreement that substantial improvements in the Winton Water system are necessary to provide adequate, clean, and potable water to the customers of Winton Water. DPH, applicant, and the staff proposals differed in several respects.

Applicant proposes to replace substandard water pipes, install blow-off valves, reconstruct two pumps, drill and equip two new wells, and install fire hydrants as part of its scheduled construction program. The specific proposals presented by the consultant engineer are described in his Exhibits 11 and 12 and on diagrams submitted as Exhibits 3 through 10. The

recommendations of the staff engineer are contained in his Exhibit 17. The recommendations of the associate sanitary engineer appearing for DPH were made orally at the hearing. The recommended improvements to the facilities which are different from those contained in the application were submitted to DPH to determine which are necessary to provide adequate, clean, and potable water (see Footnote 1).

DPH's Exhibit 21 sets forth the improvements which are qualified on the basis of public health need and which are approved for financing by Bond Act funds. The total of such improvements (including the 3 percent loan management fee) are estimated to cost not in excess of the principal amount of the loan of \$587,100. Exhibit 21 does not provide for the metering of commercial customers as proposed by the staff engineer. Exhibit 21 states that proposals other than those found qualified, "although beneficial and of value in the overall operation of Winton Water's system, do not have the direct impact in the delivery of clean potable water of sufficient pressure and volume needed for inclusion in the loan."

The improvements found qualified and approved for application of Bond Act funds are for purposes specified in Section 817 of the Public Utilities Code, and approval of the loan agreement between Winton Water and DWR should be approved under provisions of Section 818 of the Code.

Term of Loan

The loan agreement attached to the application provides for repayment of the loan over a period of 20 years. The evidence indicates that a longer repayment period would reduce the rate increase necessary to cover principal and interest payments and would more closely match the life of the assets to be acquired from the proceeds of the loan. The staff witnesses recommended

a repayment period of 30 to 35 years. DWR desires that the shortest reasonable repayment period be adopted. Thirty years is the shortest reasonable period for repayment of the loan in light of the opposing considerations of the need of DWR for prompt repayment of the loan and the needs of the customers of the lowest possible utility bills.

Method of Increasing Rates

We will not settle in this proceeding whether the surcharge method or the conventional ratemaking method should determine the level of the increased rates and charges made necessary by the approval of the proposed loan.

The application of Quincy Water Company (Application No. 57406) was intended to be the lead case for determining how to dispose of applications such as this arising under the Bond Act. Pending a decision in the Quincy matter, we have authorized interim relief to Borrego Springs Water Company by Decision No. 88535 dated March 7, 1978 in Application No. 57698, and to Rio Plaza Water Company, Inc. by Decision No. 88834 dated May 16, 1978 in Application No. 57461.

Interim relief should be granted herein pending resolution of the ratemaking issues in Quincy Water Company. The interim increase authorized herein is \$2.70 per month for flat rate residential service and comparable amounts for other types of service.

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 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. Applicant's customers have been informed as to the project, its benefits, and its expected costs. There is substantial public support for the project.

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 term for repayment of the loan should be not less than 30 years in order to provide the lowest possible rates to applicant's customers and to more reasonably match the repayment period to the lives of assets acquired with the loan proceeds.

7. 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.

8. 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 conditions set forth in Findings 5 and 6.

3. The investigative proceeding in Case No. 10397 is no longer necessary in view of the findings and conclusions reached herein, and that proceeding should be terminated.

INTERIM ORDER

IT IS ORDERED that:

1. Winton Water Company, Inc. (Winton Water) may issue a note in the sum of \$587,100 to the State of California 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. The repayment period specified in such note shall be not less than thirty years.

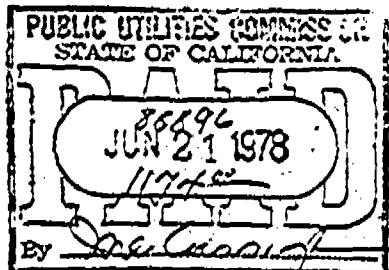
2. Winton Water may file the revised rate schedules attached to this order as Appendix A when the sum of money expended on capital improvements exceeds 50 percent of the loan amount, as requested. Such filing shall comply with General Order No. 96-A. The staff shall confirm the magnitude of dollars expended 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. Winton Water shall establish a balancing account as specified in Finding 5.

4. The proceeding in Application No. 57771 is continued.  
The proceeding in Case No. 10397 is terminated.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Winton Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,174. In other respects the effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 13<sup>th</sup> day of JUNE, 1978.



Robert B. ...  
resident  
William ...  
Vernon L. ...  
Robert ...  
Clair ...  
Commissioners

APPENDIX A  
Page 1 of 2

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Winton and vicinity, Merced County.

RATES

Service Charge:

	<u>Per Meter</u>	<u>Per Month</u>
	<u>Present</u>	<u>Revised</u>
For 5/8 x 3/4-inch meter.....	\$3.00	\$3.00
For 3/4-inch meter.....	3.30	3.30
For 1-inch meter.....	4.50	4.50
For 1 1/2-inch meter.....	6.00	6.00
For 2-inch meter.....	8.10	8.10

Quantity Rates:

First 500 cu.-ft., per 100 cu.-ft. ....	\$0.35	\$0.35
Over 500 cu.-ft., per 100 cu.-ft. ....	0.41	0.48 (I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

APPENDIX A  
Page 2 of 2

## Schedule No. 2

FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Winton and vicinity, Merced County.

RATES

	Per Service Connection Per Month		
	Present	Revised	
1. For a single-family residential unit, including premises not exceeding 9,000 sq.ft. in area .....	\$ 6.15	\$ 8.85	(1)
a. For each additional single- family residential unit on the same premises and served from the same service connection .....	4.05	6.75	
b. For each 100 sq.ft. of premises in excess of 9,000 sq.ft. ....	0.024	.035	
2. For each commercial launderette, per washing machine .....	2.45	3.55	
3. For each freezer locker plant .....	8.10	11.70	
4. For each store, market, shop or service station .....	6.15	8.85	
5. For each hotel, apartment or motel, including first unit, office and utility room .....	6.15	8.85	
For each additional unit .....	4.05	6.75	(2)

SPECIAL CONDITIONS

1. The above flat rates apply to a residential service connection not larger than one-inch in diameter.

2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.