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Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Patterson City Water Co. to execute a Loan Contract with the State Department of Water Resources for a \$111,770 loan and to increase its rates.

Application No. 57464
(Filed July 19, 1977)

O P I N I O N

This application seeks authority (1) to procure a loan from the State Department of Water Resources (DWR) and to incur indebtedness of \$111,770 and (2) to increase rates by an amount necessary to cover the debt service of principal and interest on the proposed loan.

Applicant is engaged in furnishing water service to residential, commercial, and governmental customers and for fire protection in the city of Patterson in Stanislaus County. The water supply is obtained from wells located within the service area. The distribution system consists of asbestos cement and steel pipelines ranging in size from one inch to ten inches in diameter. There are 1,233 services, all metered. The original cost of utility plant as of December 31, 1976 was \$502,308.

The State Health Department has recommended certain proposed improvements in the applicant's water supply system. Its water supply permit is conditioned on accomplishing the proposed improvements.

The permit identifies the deficiencies as:

- "a) An 8-inch vitrified clay sewer line is at a horizontal distance of less than 25 feet from Well No. 2. Use of this well has been limited to the conditions outlined in our directive of April 2, 1976, pending relocation of the 8-inch sewer lines; and

"b) 4,130 feet of 1-, 2-, and 4-inch steel piping exists in the system. This undersized pipe is dilapidated, leaks often, results in reduced pressures in the distribution system and presents a potential hazard to the health in the community."

Applicant proposes to finance the proposed improvements pursuant to the Safe Drinking Water Bond Act of 1976. The construction program is described in detail by Exhibit D to the application. The items of construction and the costs estimated are detailed below.

Improvement Program

<u>Item</u>	<u>Cost</u>
Move sewer line	\$ 5,000
Replace transmission lines	79,348
Engineering, inspection, and legal	14,302
Subtotal	<u>98,650</u>
Contingencies at 10%	9,865
Total estimated project costs	<u>\$108,515</u>

The loan contract provides a repayment schedule of equal semiannual payments of principal and interest. The exact rate of interest will not be known until the bonds have been sold but is estimated to be 5.5 percent; at that rate the annual debt service will be \$8,280 for the proposed 25-year loan.^{1/}

The application originally proposed to recover the principal and interest payments of the loan through surcharges levied against the customers as part of the monthly charges for water service. The amount of monthly surcharge would have been directly proportional to the capacity of the customer's meter. The utility plant thus financed would not have been included in rate base for ratemaking purposes. The depreciation expense would have been recorded for income tax purposes only.

Applicant estimates that its total revenue at present rates is \$139,998. The surcharge is therefore expected to increase the revenue by approximately 6 percent.

^{1/} The maximum loan life normally available is 35 years. In one case DWR has considered extending a 40-year loan.

Applicant by letter has indicated that it would prefer to have this loan treated as conventional financing. This would mean that the value of the plant acquired would be added to applicant's other plant and would become a part of its depreciable rate base. Neither the repayment of principal nor the interest charges would be recognized as an above-the-line expense of the utility for ratemaking; however, the level of interest would properly be considered in fixing applicant's rate of return.

Discussion

Decision No. 88973 in Application No. 57406 (Quincy Water Company) was intended to establish a uniform method for handling Safe Drinking Water Bond Act proposals. The rates adopted herein are consistent with the rates authorized in Decision No. 88973. The amount was determined by estimating consumption and calculating the amount of surcharge necessary to match the annual outlays necessary to service the debt. The surcharge will cease when the debt is paid off. In this proceeding the surcharge will amount to \$0.028 per 100 cu.ft. Since this amount will cover both principal and interest on the loan, the plant will be excluded from rate base and will not be depreciated for ratemaking purposes.

A balancing account will be required and will be credited with both surcharge revenue and any investment tax credits made possible by the plant additions. If the balance in the account should by any chance exceed the amount needed to pay DWR, the excess can be ordered refunded. On the other hand, if there is an unanticipated shortfall, the Commission will consider authorizing a temporary increase in the surcharge for the purpose of raising the balance in the account to appropriate levels.

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 revenue generated by the applicant's present rates will not provide sufficient revenue to meet the payments on such a loan. Applicant should be authorized a rate surcharge of \$0.028 per 100 cu.ft. for each of its domestic customers to offset the periodic payments on a 25-year loan on \$111,770.

4. No hearing is required. 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 separate balancing account to be credited with all billed surcharge revenues and tax credits as used and credited by the amount of payments on the loan. Any unneeded surpluses generated by the surcharge should either be refunded directly or indirectly to the consumers. The surcharge should terminate and the account be closed out after the last payment on the loan is made. The property thus financed should not be included in applicant's rate base nor should applicant be authorized to include depreciation on this property for ratemaking purposes.

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. 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.

Conclusions

1. The increase in rates as described above should be granted to offset applicant's increased expenditures under the loan.

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

O R D E R

IT IS ORDERED that:

1. Applicant may issue a note in the sum of \$111,770 to the State 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. 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 September 1, 1978. The revised schedules shall apply only to the service rendered on or after the date of the revised schedules.

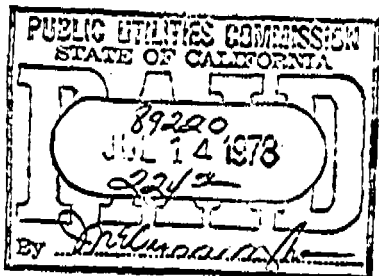
3. Applicant shall establish a balancing account as specified in Finding 5.

4. The property financed by this loan shall not be included in rate base and applicant shall not be allowed depreciation for ratemaking purposes.

The authority granted by this order to issue an evidence of indebtedness and to execute and deliver an encumbering document will become effective when the issuer has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$224. In other respects the effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 11th day of JULY, 1978.

Robert Bateman
President



Richard P. Lovell
Walter J. DeBriest
Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Patterson, and vicinity, Stanislaus County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	<u>Surcharge</u> <u>Per 100 Cu.Ft.</u>	
First 500 cu.ft., per 100 cu.ft.	\$ 0.326	0.028	(I)
Next 19,500 cu.ft., per 100 cu.ft.39	0.028	f
Over 20,000 cu.ft., per 100 cu.ft.29	0.028	(I)
 Service Charge:			
For 5/8 x 3/4-inch meter.....	2.35		
For 3/4-inch meter.....	2.90		
For 1-inch meter.....	3.50		
For 1 1/2-inch meter.....	6.00		
For 2-inch meter.....	8.00		
For 3-inch meter.....	15.00		
For 4-inch meter.....	20.00		
For 6-inch meter.....	48.00		
For 8-inch meter.....	70.00		

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rates.

The purpose of the Surcharge is to generate sufficient revenue to repay the annual debt of the Safe Drinking Water Bond Act loan.

(N)