

Decision No. 90267 MAY 8 1979

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application )	
of ARDEN WATER COMPANY to borrow )	
funds under the Safe Drinking )	Application No. 58690
Water Bond Act, and to add a )	(Filed February 20, 1979)
surcharge to water rates to repay )	Amended March 22, 1979
the principal and interest on )	
such loan. )	

O P I N I O N

By this application, as amended, Arden Water Company (Arden) requests authority to borrow \$370,800 under the California Safe Drinking Water Bond Act of 1976 (SDWBA) and to add a surcharge to water rates to repay the principal and interest on such loan. Application No. 58690 and the amendment to the application were listed on the Public Utilities Commission's Daily Calendars of February 22, 1979 and March 26, 1979, respectively.

Arden provides water service to approximately 820 residential and commercial customers in the unincorporated area of Wofford Heights, California located at Lake Isabella, about two miles south of Kernville, Kern County, California. The 820 connections are all metered. The source of supply for Arden is water obtained from 13 wells situated at four different locations in the Wofford Heights area (including two wells at the Lakeside Properties). This water is pumped to storage reservoirs. Only the Lakeside Properties water is chlorinated. The stored water is then distributed to Arden's customers either by gravity flow or by pumping to higher elevations.

The present water system has serious deficiencies due to old and deteriorated water mains. These deficiencies have required frequent shutdowns of portions of the system so that repairs could be made. In addition to the plant deficiencies, a high concentration of iron and manganese in the water has caused severe stain and discoloration problems.

Arden proposes to correct the plant deficiencies by replacing approximately 25,000 ft. of existing 4" water mains with

new 4", 6" and 8" water mains. To eliminate the stain and discoloration problems, Arden proposes the installation of a water treatment plant. The utility proposes to finance these plant improvements through a SDWBA loan.

The SDWBA provides, among other things, that water utilities whose systems fail to meet California Health and Safety Code standards and which cannot otherwise finance necessary plant improvements may apply to the California Department of Water Resources (DWR) for low interest rate loans. The SDWBA charges the California Department of Health Services (DHS) with the responsibility of analyzing the public health issues, and of making a determination of the specific plant improvements that are needed. DWR determines the need for financial assistance and acts as the lending agency and fiscal administrator. Before a loan is granted, the applicant must demonstrate to DWR its ability to repay the loan and that it has instituted measures that will maximize water conservation. Under the provisions of Sections 816 through 830 of the Public Utilities Code, public utility water companies must obtain authorization from the California Public Utilities Commission (Commission) to enter into any long-term loan. Section 454 of that Code requires a public utility water company to obtain Commission approval for rate increases.

The DHS has reviewed Arden's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated January 29, 1979, DWR informed Arden of Applicant's eligibility for a loan under the SDWBA.

The items of construction and costs, as estimated in the amended application, are detailed as follows:

<u>ITEMS</u>	<u>COST</u>
Treatment Plant	\$ 59,000
Exterior Plumbing	3,000
Exterior Wiring	1,000
Control Building	3,800
Holding Pond	1,600
Fencing	1,600
860 Linear Feet 8" PVC Pipe	9,202
14,730 Linear Feet 6" AC Pipe	153,192
400 Linear Feet 6" PVC Pipe	5,040
5,000 Linear Feet 6" PVC Pipe	47,000
1,690 Linear Feet 4" PVC Pipe	15,886
2,400 Linear Feet 4" PVC Pipe	19,680
100 Linear Feet 4" Cement Lined Steel Pipe (Lake Properties)	3,000
Reconstruction of Well No. 7 (Lake Properties)	11,000
Reconstruction of Well No. 8 (Lake Properties)	<u>11,000</u>
Subtotal	\$345,000
Engineering Costs	15,000
DWR Administrative Fee	
Three Percent of Loan	<u>10,800</u>
Total Estimated Project Cost	<u><u>\$370,800</u></u>

The proposed loan from DWR provides for a 30-year repayment schedule with equal semi-annual payments of principal and interest, at an interest rate of 5-1/2% per annum. The annual requirements for debt service are approximately \$25,515. Based on an estimated average residential customer consumption of approximately seven hundred cubic ft. of water per month, a surcharge to Arden's present rates of \$0.32 per hundred cubic feet of water used, would provide sufficient revenue (approximately \$25,515 per year) for yearly amortization of interest and principal on the loan. Water rates of commercial customers having larger water usage would be increased proportionately. Such a

surcharge would produce about \$2,125 per month, with an increase in water rates of approximately \$2.28 per month for an average residential customer.

Arden's present rates were authorized by Commission Resolution No. W-2407, effective September 6, 1978 and modified effective November 26, 1978, to reflect a reduction in property taxes.

The estimated annual gross revenue for 1979, under present rates, will be about \$84,882. The \$25,515 yearly increase under the SDWBA loan surcharge thus would increase Arden's revenues by approximately 30%.

On March 13, 1979, staff members of the Commission's Finance Division conducted a public meeting at Wofford Heights, California to explain the SDWBA loan program. The meeting was attended by about 76 customers of the utility. Also participating in the meeting were representatives from DHS, DWR and the owner of Arden. By direction of the Commission, Arden sent a letter to all customers notifying them of the meeting.

Most customers agreed that the proposed plant improvements were badly needed, and that the suggested method of financing was the least expensive method available. The principal opposition arose from representatives of about 55 customers in the area known as "Lake Properties", that is not contiguous with the remainder of the water company system. These customers pointed out that they would not benefit from the proposed plant improvements. In addition, customers in the main service area demanded assurances that the proposed improvements would correct existing problems of stain and discoloration.

The objections of the Lake Properties customers were met when the utility management agreed to modify its plant improvement program so as to spend as much per customer in the Lake Properties area as in the remainder of the water system. While not part of the agreed upon improvements, the utility management also indicated its intention to acquire a tank site at an elevation that will permit it to continue to serve the Lake Properties by gravity flow in the event

of a power outage.

Most of the objections from customers in the main service area were met when they were assured that the plant improvement program was designed to correct the stain and discoloration problems and to provide adequate water pressure throughout the system. At the conclusion of the meeting, on a show of hands, only six customers voted in opposition to the proposed plant improvement program and related rate surcharge.

The Commission has reviewed the application, as amended, and has concluded that the proposed SDWBA loan is the most feasible and economical method of financing a general plant reconstruction program to correct the major water system deficiencies. The Commission, therefore, will authorize Arden to enter into the proposed loan contract with DWR and to institute a surcharge on customer bills to repay the loan.

We recognize that the proposed increase in rates exceeds the guidelines for voluntary noninflationary prices promulgated by the President's Council on Wage and Price Stability. The increase, however, is in keeping with the exceptions noted in Section 705-C-8 (d) (iii) of the Council's guidelines, which section indicates that exceptions to the guidelines are warranted if the guidelines would impose extreme hardships and gross inequities on utilities.

While Section 705-C-8 of the Council's guidelines applies to electric and gas utilities, equity dictates that the guidelines should be applied to utilities that qualify for loans provided by the SDWBA.

Circumstances which constitute a hardship include inadequate cash flow. Under existing rates Arden would not have sufficient cash flow to meet the principal and interest payments on the proposed loan from DWR. The rate surcharge, therefore, is in accordance with the guideline exceptions of the President's Council on Wage and Price Stability.

The SDWBA loan repayment surcharge should be separately identified on customer bills. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes and the depreciation on this plant should be recorded in memorandum accounts, for income tax purposes only.

Arden should establish a balancing account to be credited with revenue collected through the surcharge and with investment tax credits arising from the plant reconstruction program as they are utilized. The balancing account should be charged with payments of interest and principal on the loan. The surcharge should be adjusted periodically to reflect changes in the number of connections and water usage, and resulting overages or shortages in the balancing account.

It is appropriate to emphasize that the surcharge authorized herein will cover only the cost of the loan incurred to finance the added plant, not any additional operating expenses that may be incurred. It will not preclude the likelihood of future rate increase requests to cover additional costs of repair materials, wages, property taxes, power bills, operation of the treatment plant or other operating expenses that may be incurred in the future.

In order for the surcharge to produce enough revenue to meet the initial payment of interest and principal on the SDWBA loan due in January 1981, it is necessary for Arden to place the surcharge in effect beginning September 1, 1979. This will enable Arden to accumulate initially a small surplus in the balancing account to compensate for the time lag between billing and collection dates, and for errors in estimating water usage.

After consideration the Commission finds that:

1. The proposed water system improvements are needed to produce a healthful reliable water supply.
2. The DWR loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring necessary capital. The plant reconstruction program will cost an estimated \$370,800 including a three percent administrative charge by DWR.
3. The proposed borrowing is for proper purposes and the money, property or labor to be procured or paid for by the issue of the loan 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.
4. A rate surcharge should be established which provides in each six-month period an amount of revenue approximately equal to the periodic loan payment. This surcharge should produce about \$2,125 per month, resulting in an increase in water rates of approximately \$2.28 per month for an average residential customer. This rate increase will increase Arden's annual gross revenues by approximately \$25,515 per year.
5. The rate surcharge which is established to repay the DWR loan should last as long as the loan. The surcharge should not be intermingled with other utility charges.
6. The utility plant financed through this SDWBA loan should be permanently excluded from rate base, as the customers should not be required to pay more than once for the utility plant.
7. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility owners. Arden should establish a balancing account to be credited with revenue collected through the surcharge, and with investment tax credits resulting from the plant construction, as they are utilized. The balancing account should be reduced by payments of principal and interest on the loan. The surcharge should be adjusted periodically

to reflect changes in the number of connections and water usage, and resulting overages or shortages in the balancing account.

8. The increases in rates and charges 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.
9. This surcharge should be placed in effect beginning September 1, 1979, so as to accumulate funds to make the initial interest and principal payment due in January 1981.

Conclusions

The application, as amended, should be granted to the extent set forth in the following order. A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Arden Water Company is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedule shall be September 1, 1979 and shall apply only to the service rendered on or after that date.
2. Arden is authorized to borrow \$370,800 from the State of California, to execute the proposed loan contract, and to use the proceeds as specified in the application, as amended.
3. As a condition of the rate increase granted herein, Arden shall be responsible for refunding or applying on behalf of customers any surplus accrued in the balancing account when ordered by the Commission.
4. Arden shall establish and maintain a separate balancing account which shall include all billed surcharge revenue and the value of investment tax credits on the plant, as utilized. The balancing account shall be reduced by payments of principal and interest to the State Department of Water Resources. A separate



statement pertaining to the surcharge shall appear on each customer's water bill issued by Arden Water Company.

5. Plant financed through the SDWBA loan shall be permanently excluded from rate base.

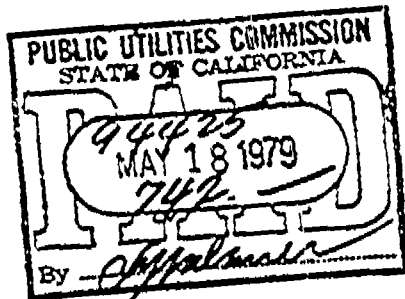
The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Arden has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$742. In all other respects, the effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California this 8th day of MAY 1979.

John E. Bayson  
President  
Demond L. Sturgeon

Clair T. Deitch  
James M. ...  
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A  
Schedule No. 1  
Metered Service

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Wofford Heights and vicinity, located approximately two miles south of Kernville, Kern County.

RATES

Quantity Rate:	<u>Per Meter</u> <u>Per Month</u>	
All water, per 100 cu.ft. . . . .	\$ 0.755	(I)
 Service Charge:		
For 5/8 X 3/4-inch meter. . . . .	\$ 5.00	
For 3/4-inch meter. . . . .	5.50	
For 1-inch meter. . . . .	7.50	
For 1-1/2-inch meter. . . . .	10.00	
For 2-inch meter. . . . .	13.50	
For 3-inch meter. . . . .	25.00	
For 4-inch meter. . . . .	35.00	

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rate.

METERED SERVICE SURCHARGE

Quantity rates include a surcharge of \$ 0.32 per 100 cubic feet. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision No. (a).

(N)

(a) Insert Decision Number in Application No. 58690 before filing tariff.