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Decision No. 91035 NOV 20 1979**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

The application of Bass Lake
 Water Company for authority
 to execute a loan contract
 with the Department of Water
 Resources for a \$171,000 loan,
 and for a surcharge to its
 rates for water service.

)
)
) Application No. 58435
) (Filed October 25, 1978)
) and Amendment
) (Filed October 1, 1979)
)
)

O P I N I O N

By this application, as amended, Bass Lake Water Company (Bass Lake) requests authority to borrow \$309,000 under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code 13850, et seq.), and to add a surcharge to water rates to repay the principal and interest on such loan.

Notices of the filing of Application No. 58435 and the amendment to the application appeared on the Commission's Daily Calendar of October 26, 1978 and October 3, 1979, respectively.

Bass Lake provides water service to approximately 600 residential and commercial customers in a service area extending along the westerly and northerly shores of Bass Lake, including the communities of Falls and Bass Lake, Madera County. There are 600 service connections including 544 flat rate and 56 metered services. The source of water supply for the utility is obtained by surface diversion and gravity flow from the North Fork of Willow Creek. Water not diverted for use in the water system flows downstream into Bass Lake. The water system has filtration and chlorination treatment facilities. It has, however, serious deficiencies including an old and deteriorated transmission main line which was laid along the bottom of the lake over 50 years ago. Other water mains are old and in very poor condition. Water outages and shortages have occurred as the result of numerous factors, including low flows in Willow Creek, a certain degree of inadequate storage capacity for treated water and undersized distribution mains.

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Bass Lake proposes to correct the deficiencies in its water distribution system by addition of a 21,000-gallon storage tank, and the installation of main and feeder lines from this tank. In addition, Bass Lake intends to remove all existing mains located in the lake and to replace them with new mains located above the utility's water line, and intends to install other mains as replacements to primarily feed-off the transmission main line. Finally, Bass Lake will make additional improvements to its water distribution system that should eliminate most of the existing service problems.

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 Service (DHS) with the responsibility of analyzing the public health issues, and of making a determination of the specific plant improvements that are needed to meet water quality standards. 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 show that it has instituted measures that will maximize water conservation. Under the provisions of Sections 816 through 851 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.

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The DHS has reviewed Bass Lake's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letters dated September 28, 1978 and August 17, 1979, DWR informed Bass Lake of its eligibility for a loan under the SDWBA.

The items of construction and costs, as estimated, are detailed as follows:

<u>Items</u>	<u>Cost</u>
Relocation and replacement of 5,500 feet of lake lines	\$102,640
Installation of 21,000 gallon storage tank	22,020
Installation of 2,000 feet of distribution main loop to reservoir	17,390
Feeder Line replacements	21,000
Acorn Line installation	700
Hill Top Line installation	2,750
Chlorine analyzer	2,200
Chlorine scales	450
Additional improvements mostly consisting of installation of 8,400 and 3,400 feet of 4" and 6" mains, respectively, (additional improvements requested by Bass Lake customers and approved by DHS and DWR)	100,850
Engineering and other contingencies costs	<u>30,000*</u>
Subtotal	\$300,000
DWR administrative fee, 3% of loan	<u>9,000</u>
Total estimated project cost	<u>\$309,000</u>

*Includes provisions for sewers, water or telephone repairs and engineering services.

The proposed loan from DWR will provide for a 35-year repayment schedule with equal semiannual payments of principal and interest, at an interest rate of 5-1/2 percent per annum. The annual requirements for debt service are approximately \$20,077. The amount of the yearly surcharge to repay principal and interest on the loan will be in direct proportion to the capacity of each customer's meter or service connection. Such a surcharge would produce about \$1,673 per month, requiring an increase in water rates of approximately \$32.40 per year for each residential customer having a 3/4-inch meter or flat rate service.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Annual ^{2/} Surcharge</u>
Residential ^{1/}	\$ 32.40
1-inch	55.05
1-1/2-inch	106.85
2-inch	171.60

1/ 3/4-inch meter or 3/4-inch service.

2/ This surcharge would be in addition to regular charges for water service.

Bass Lake's present rates were authorized by Commission Resolution No. 2035, effective January 1, 1977.

The estimated annual gross revenues for 1979, under present rates, will be about \$55,240. The \$20,077 yearly increase under the SDWBA loan surcharge thus would increase Bass Lake's revenues by approximately 36%.

On December 28, 1978, staff accountants from the Commission's Revenue Requirements Division conducted a public meeting at Ducey's Lodge on North Shore Drive, Bass Lake, California to explain the SDWBA loan program. The meeting was attended by about 80

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customers of the utility. Also participating in the meeting were representatives from DHS, DWR and Bass Lake. At the direction of the Commission, Bass Lake sent a letter to all customers notifying them of the meeting.

The Bass Lake customers, who attended the meeting, overwhelmingly indicated their support for the proposed water system improvements. There was widespread concern, however, that the proposed plant reconstruction program would primarily benefit the commercial enterprises along the lake, but which would do little to correct the distribution system deficiencies in some of the residential areas, caused by inadequate small mains and service connections to owners' property lines. Bass Lake customers expressed strong sentiment towards having the utility correct these distribution system deficiencies, even if it entailed borrowing by Bass Lake of additional SDWBA loan funds from DWR with a concomitant higher rate surcharge. At a subsequent meeting held on January 22, 1979, Bass Lake together with some of its customers, the Pines Civic Council (a homeowners organization), and a DHS representative unanimously decided that Bass Lake should apply for additional SDWBA loan funds from DWR, bringing the total requested loan to \$309,000. The additional funds would be used to improve the residential customer system deficiencies mentioned previously. On February 1, 1979, Bass Lake sent a notice to each customer, informing them of the increase in the SDWBA loan request. The DHS and DWR have determined the need and approved the increase in the amount of Bass Lake's SDWBA loan from \$171,000 to \$309,000.

Since the public meeting of December 28, 1978, Bass Lake has filed with the Commission a certified copy of a resolution of its Board of Directors indicating that "Bass Lake continue to invest future net income and depreciation accruals in plant

improvements to correct system deficiencies, as long as is required, in order to bring the system up to the standards, as required by the appropriate regulatory agencies, for comparable water systems".

The staff accountants have reviewed the application, as amended, and have concluded that the proposed plant improvements are badly needed and the proposed SDWBA loan clearly 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 Bass Lake 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 likewise should be applied to water utilities that qualify for loans provided by the SDWBA. Circumstances which constitute a hardship include inadequate cash flow. Under existing rates, Bass Lake 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.

Bass Lake 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 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 increases in costs of repair materials, wages, property taxes, power bills, 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 principal and interest on the SDWBA loan due in January 1981, it is necessary for Bass Lake to place the surcharge in effect beginning January 1, 1980. This effective date is necessary because Bass Lake bills its customers annually on or about the first day in January. Also, this will enable Bass Lake to accumulate initially a small surplus in the balancing account to compensate for the time lag between billing and collection dates.

Findings of Fact

1. The proposed water system improvements are needed to produce a healthful, reliable water supply.
2. The SDWBA 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 \$309,000 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 would be established which provides in each six months' period an amount of revenue approximately equal to the periodic loan payment. This surcharge should produce about \$1,673 per month, resulting in an increase in water rates of approximately \$32.40 per year for an average residential customer. Water rates of customers with larger meters or services would be increased proportionately. This rate surcharge will increase Bass Lake's annual gross revenues by approximately \$20,077 per year.
5. The rate surcharge which is established to repay the SDWBA loan should last as long as the loan. The surcharge would not be intermingled with other utility charges.
6. The utility plant financed through this SDWBA loan would 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. Bass Lake would 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 would be reduced by payments of principal and interest on the loan. The rate surcharge would be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

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.

9. Because Bass Lake bills its customers only once a year, this surcharge should be placed in effect beginning January 1, 1980, so as to accumulate funds to make the initial principal and interest payment due in January 1981.

Conclusions of Law

1. The application, as amended, should be granted to the extent set forth in the following order.

2. A formal hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Bass Lake 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 five days after the date of filing, and shall apply only to service rendered on or after January 1, 1980.

2. Bass Lake Water Company is authorized to borrow \$309,000 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application, as amended.

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3. Bass Lake Water Company shall establish and maintain a separate balancing account in which shall be recorded 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 Bass Lake Water Company.

4. As a condition of the rate increase granted herein, Bass Lake Water Company shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.

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 Bass Lake Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$618. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated NOV 20 1979 at San Francisco, California.

John E. Bryson
President
Richard D. Gravelle

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

Alan T. DeLoach
Samuel M. Jensen
Commissioners



Schedule No. 1A
Sheet 1 of 2

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered service furnished on an annual basis.

TERRITORY

The northwest shore of Bass Lake including the Falls and Bass Lake and vicinity, Madera County.

RATES

	<u>Per Meter Per Year</u>
Quantity Rate:	
First 500 cu.ft., per 100 cu.ft.	\$ 0.24
Over 500 cu.ft., per 100 cu.ft.28
Annual Service Charge:	
For 5/8 x 3/4-inch meter	60.00
For 3/4-inch meter	76.00
For 1-inch meter	104.00
For 1-1/2-inch meter	140.00
For 2-inch meter	185.00

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 rate, for water used.

Schedule No. 1A
Sheet 2 of 2

ANNUAL METERED SERVICESURCHARGE

	<u>Size of Meter</u>	<u>Surcharge Per Meter Per Year</u>
For	5/8 x 3/4-inch meter	\$ 32.40
For	3/4-inch meter	32.40
For	1-inch meter	55.05
For	1-1/2-inch meter	106.85
For	2-inch meter	171.60

(N)

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular annual metered water bill. The total annual 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).

- (a) Insert Decision Number in Application No. 58435 before filing tariff.

(N)

Schedule No. 2-RA
Sheet 1 of 2

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to residential flat rate service furnished on an annual basis.

TERRITORY

The northwest shore of Bass Lake, including the Falls and Bass Lake and vicinity, Madera County.

RATES

Per Service Connection
Per Year

- | | |
|--|----------|
| 1. For a single-family residential unit including premises: | |
| 3/4-inch service | \$ 80.00 |
| 1-inch service | 106.00 |
| a. For each additional single-family residential unit on the same premises and served from the same service connection | 32.00 |

APPENDIX A

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Schedule No. 2-RA
Sheet 2 of 2

ANNUAL RESIDENTIAL FLAT RATE SERVICESURCHARGE

<u>Size of Service</u>	<u>Surcharge Per Service Connection Per Year</u>	(N)
3/4-inch service	\$ 32.40	
1-inch service	55.05	
1-1/2-inch service	106.85	
2-inch service	171.60	

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$80.00 per 3/4-inch service connection, per year. The total annual 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).

- (a) Insert Decision Number in Application No. 58435 before filing tariff.

(N)