

Decision No. 91197 JAN 8 - 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)	
Edna B. Lee, dba Gerber Water Works,)	
to borrow funds under the Safe)	Application No. 59038
Drinking Water Bond Act, and to add)	(Filed August 1, 1979)
a surcharge to water rates to repay)	and Amendment
the principal and interest on such)	(Filed December 3, 1979)
loan.)	

O P I N I O N

By this application, as amended, Gerber Water Works, Inc., (Gerber) a California Corporation, requests authority to borrow \$100,075 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. 59038 and the amendment to the application appeared on the Commission's Daily Calendars of August 3, 1979 and December 6, 1979, respectively.

Subsequent to the filing of this application, Gerber became a corporation and was authorized to transfer its assets by Commission Decision No. 90875, dated October 10, 1979, in Application No. 58981.

The utility provides water service to approximately 289 residential and commercial customers in the unincorporated community of Gerber, with a population of about 1,000 people. The community is located two miles west of the Sacramento River and about nine miles southeast of Red Bluff, Tehama County. There are 289 service connections including 258 flat rate and 31 metered services. Gerber's supply of water is obtained from three deep wells. The utility currently is utilizing only two of the wells, and the third well is retained for either standby emergency use, or reserve capacity. The water system does not require filtration and chlorination treatment facilities because all ground water sources are of satisfactory chemical and bacteriological quality. The system, however, has serious deficiencies including deteriorated transmission and

distribution mains, lack of control valves and flow meters, low water pressure and improper fire protection service.

Gerber proposes to correct the deficiencies in its water distribution system by the installation of approximately 4,770 feet of new transmission and distribution mains, installation of control valves and installation of flow meters at wells. In addition, Gerber intends to install fire hydrants and new services to feed-off the distribution mains.

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.

The DHS has reviewed Gerber's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letters dated April 16, 1979 and November 7, 1979, DWR informed Gerber of its eligibility for a loan under the SDWBA.

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

<u>Item</u>	<u>Cost</u>
Installation of 4,770 feet of 8" mains @ \$11.50 per foot	\$ 54,855
Four 8" gate valve installations @ \$400 each	1,600
Eight 4" gate valve installations @ \$300 each	2,400
Installation of five fire hydrants @ \$1,000 each	5,000
Seven 3/4" services installations @ \$250 each	1,750
Installation of 86 transfer services @ \$100 each	8,600
Installation of two main line meters @ \$800 each	1,600
Deed of Trust filing	1,200
Engineering and other contingencies costs	<u>20,155</u>
Subtotal	\$ 97,160
DWR administrative fee, 3% of loan	<u>2,915</u>
Total estimated project cost	<u>\$100,075</u>

The proposed loan from DWR will provide for a 30-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 \$6,850. 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 approximately \$571 per month, requiring an increase in water rates of approximately \$2.00 per month for each residential customer with a 5/8"x3/4" meter or 3/4" flat rate service.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly^{2/} Surcharge</u>
Residential ^{1/}	\$ 2.00
1-inch	3.40
1-1/2-inch	6.60
2-inch	10.60

^{1/} 5/8"x3/4" meter or 3/4" service.

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

Gerber's present rates were authorized by Commission Resolution No. W-2394, effective August 8, 1978, and modified effective December 9, 1978, to reflect a reduction in property taxes.

The estimated annual gross revenues for 1979, at present rates will be about \$23,385. The \$6,850 yearly increase under the SDWBA loan surcharge thus would increase Gerber's revenues by approximately 29%.

On August 22, 1979, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Gerber Community Club, Gerber, California to explain the SDWBA loan program. The meeting was attended by about 32 customers of the utility. Also participating in the meeting were representatives from DES, DWR and Gerber. At the direction of the Commission, Gerber sent a letter to all customers notifying them of the meeting.

The Gerber customers who attended the meeting overwhelmingly indicated their support for the proposed water system improvements. However, the customers in attendance (which included representatives of the Gerber-Las Flores Community Services Fire District) expressed concern that the proposed water system improvements would not solve the low water pressure at the southwest corner of the Gerber water system, and that additional fire hydrants were needed to meet the requirements of General Order No. 103. The Gerber customers expressed unanimous sentiment towards having the utility correct these additional distribution system deficiencies, even if it entailed borrowing by Gerber of additional SDWBA loan funds from DWR, with a concomitant higher rate surcharge not exceeding \$2.00 per month, per residential customer.

The DES and DWR representatives decided that Gerber should apply for additional SDWBA loan funds of \$37,450 from DWR, bringing the total requested loan to \$100,075. The additional funds would be used for installation and extension of an 8-inch main, another approximate 1,470 feet; transfer of 39 services so that they feed-off the 8-inch main; installation of five fire hydrants and increased contingency and engineering costs. The DES and DWR have determined the need and approved the increase in the amount of Gerber's SDWBA loan from \$62,625 to \$100,075.

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 Gerber 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, Gerber 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 customers' 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.

Gerber 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 Gerber to place the surcharge in effect beginning March 1, 1980. This will enable Gerber 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 \$100,075 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 \$571 per month, resulting in an increase in water rates of approximately \$2.00 per month for an average residential customer. Water rates of customers with larger meters or services would be increased proportionately. This rate surcharge will increase Gerber's annual gross revenues by approximately \$6,850 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. Gerber 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. This surcharge should be placed in effect beginning March 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, Gerber Water Works, Inc., 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 March 1, 1980.
2. Gerber Water Works, Inc., is authorized to borrow \$100,075 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.
3. Gerber Water Works, Inc., shall establish and maintain a separate balancing account in which shall be recorded all bill 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 Gerber Water Works, Inc.

4. As a condition of the rate increase granted herein, Gerber Water Works, Inc., 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 Gerber Water Works, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$202. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated JAN 8 - 1980, at San Francisco, California.

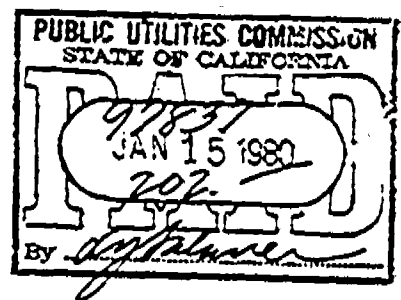
John E. Cayne

President
Richard W. Howell

Robert T. ...

Thomas W. ...

Commissioners



APPENDIX A

Schedule No. 1
Sheet 1 of 2

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Gerber and vicinity, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:*	
For 5/8 x 3/4-inch meter	\$ 2.50
For 3/4-inch meter	2.75
For 1-inch meter	3.75
For 1½-inch meter	5.00
For 2-inch meter	6.75
Quantity Rates:	
First 300 cu.ft. per 100 cu.ft.	\$ 0.32
Over 300 cu.ft. per 100 cu.ft.	0.408 (R)

* The service charge is applicable to all 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

Schedule No. 1
Sheet 2 of 2

GENERAL METERED SERVICESURCHARGE

(N)

	<u>Size of Meter</u>	<u>Surcharge Per Meter Per Month</u>
For	5/8 x 3/4-inch meter	\$ 2.00
For	3/4-inch meter	2.00
For	1-inch meter	3.40
For	1-1/2-inch meter	6.60
For	2-inch meter	10.60

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. 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 authorized by Decision No. (a).

- (a) Insert Decision Number in Application No. 59038 before filing tariff.

(N)

APPENDIX A

Schedule No. 2
Sheet 1 of 2

GENERAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Gerber and vicinity, Tehama County.

RATES

	<u>Per Service Connection Per Month</u>	
1. For a single-family residential unit, including premises not exceeding 7,500 sq. ft. in area	\$ 6.15	(R)
a. For each 100 sq. ft. of premises in excess of 7,500 sq. ft.	0.026	
2. For each small store or business	4.60	(R)

SPECIAL CONDITIONS

1. All service not covered by the above classifications shall be furnished only on a metered basis.

2. For service covered by the above classifications, if either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

APPENDIX A

Schedule No. 2
Sheet 2 of 2

GENERAL FLAT RATE SERVICESURCHARGE

(N)

<u>Size of Service</u>	<u>Surcharge Per Service Connection Per Month</u>
3/4-inch service	\$ 2.00
1-inch service	3.40
1-1/2-inch service	6.60
2-inch service	10.60

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of of \$6.15 per 3/4-inch service connection, per month. 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).

- (a) Insert Decision Number in Application No. 59038 before filing tariff.