

RR/mem *

Decision No. 91921 JUN 17 1980**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 Jimmie R. Smith, dba Mar Vista Water)
 Co., to borrow funds under the Safe)
 Drinking Water Bond Act, and to add)
 a surcharge to water rates to repay)
 the principal and interest on such)
 loan.)

Application No. 59585
 (Filed April 11, 1980)

O P I N I O N

Jimmie R. Smith, dba Mar Vista Water Co. (Mar Vista), requests authority to borrow \$154,500 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. 59585 appeared on the Commission's Daily Calendar of April 14, 1980.

The utility provides water service to approximately 100 residential customers in the unincorporated community of Aptos, with a population of about 29,000. The community is located ten miles south of the City of Santa Cruz, Santa Cruz County. The 100 service connections consist of 90 flat rate and 10 metered services.

Mar Vista's present water supply is obtained from one deep well. The system has serious deficiencies including deteriorated transmission and distribution mains, lack of blow off, shut off and air release valves, inadequate water storage and backup water supply, and high manganese and iron content in the water.

Mar Vista proposes to correct the deficiencies in its water distribution system by the installation of approximately 3,000 feet of new transmission and distribution mains, installation of 28 new blow off, shut off and air release valves, installation of a 60,000-gallon storage tank, a new backup well, and pump and emergency generator.

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) and the Santa Cruz County Health Services Agency (SCHSA) 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 SCHSA has reviewed Mar Vista's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated January 24, 1980, DWR informed Mar Vista of its eligibility for a loan under the SDWBA.

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

<u>Item</u>	<u>Estimated Cost</u>
1. Installation of 60,000-gallon storage tank with pad and connection	\$ 21,000
2. Installation of new backup well, purchase of new pump for existing well and backup emergency generator	26,500
3. Purchase and installation of approximately 3,000 feet of 6" pipe, 6 new fire hydrants, 28 blow off, shut off and air release valves	<u>102,500</u>
Subtotal	\$150,000
DWR administrative fee, 3% of loan	<u>4,500</u>
Total estimated project cost	<u>\$154,500</u>

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 revenue to meet the semiannual payments on the SDWBA loan will be obtained from surcharges on all metered and flat-rate services. The total amount of revenue from the proposed surcharge will exceed the loan repayment requirements by approximately 10 percent. In accordance with DWR requirements, this overcollection will be deposited with the fiscal agent to accumulate a reserve of two semiannual loan payments over a 10-year period. Earnings of the reserve fund, net of charges for the fiscal agent's services, will be added to the fund. Net earnings of the reserve fund will be used, together with surcharge amounts collected from customers, to meet the semiannual loan payments. The Commission reserves the right to review the manner in which the fund is invested and to direct that a different fiscal agent be selected if appropriate.

The annual requirements for debt service will be approximately \$11,000. The amount of the surcharge to repay principal, interest and necessary reserve on the loan will be in direct proportion to the capacity of each customer's meter or service connection. The following surcharge would produce approximately \$915 per month, requiring an increase in water rates of approximately \$9.15 per month for each residential customer.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly^{1/} Surcharge</u>
5/8" x 3/4" meter	\$ 8.30
3/4" meter or 3/4" service	9.15
1" meter	12.50

^{1/} This surcharge would be in addition to regular charges for water service.

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Mar Vista's present rates were authorized by Commission Resolution No. W-2528, effective June 5, 1979.

The estimated annual gross revenues for 1980, at present rates will be about \$12,000. The \$11,000 yearly increase under the SDWBA loan surcharge thus would increase Mar Vista's revenues by approximately 92%.

On May 8, 1980, staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Valencia Elementary School, Aptos, California, to explain the SDWBA program. The meeting opened with 45 persons representing 23 residential customers of the utility in attendance. However, 18 residential customers and 35 persons remained for the entire meeting. Also participating in the meeting were representatives from DWR, SCESA and Mar Vista. At the direction of the Commission, Mar Vista sent a letter to all customers notifying them of the meeting.

After a general introduction which included an explanation of all the basic aspects of the loan proposal, the floor was opened to the customers for questions. Many of them expressed their concern and opposition to the surcharge due to the 100% rate increase effective since June 1979. They made reference to Resolution No. W-2528 and its language concerning some of the same improvements that are being proposed in the SDWBA proposal. A number of lengthy explanations were presented which, in summary, stated that the June 1979 rate increase pertained only to providing adequate coverage for increases in operating expenses over the 9-1/2 year period since the prior rate increase and to reflect a change from a negative rate of return to a 4.5% return. The point was also made that the charges for water service are completely separate from the monies needed to finance the SDWBA loan.

A detailed presentation was made on the blackboard of Mar Vista's 1979 income statement and the inability of the utility to generate the funds needed to finance the basic improvements required by safe drinking water health standards.

One customer asked why the owner did not invest his own money to make the improvements. The DWR representative stated that in order for Mr. Smith to qualify for a SDWBA loan, he was required to exhaust all other reasonable sources of financing which included his own funds, local banks and the Small Business Administration. In other words, DWR as the banker for the SDWBA program, is the lender of last resort.

Considerable time was also given to the "black water" condition. The SCHSA representative gave a detailed description of the health aspects of the water. To correct the manganese and iron contents would require filtration. A system-wide filtration process would be extremely expensive and has not been included in the SDWBA loan proposal due to this reason.

Two customers expressed their appreciation to Mr. Smith. They indicated that the service has substantially improved since he took over the utility only a year and a-half ago.

At the conclusion of the meeting, on a show of hands, 15 customers voted in favor of the SDWBA proposed plant improvement program and rate surcharge and three customers voted against the proposal.

The staff reviewed the application and concludes that the proposed plant improvements will substantially improve service. The proposed SDWBA loan clearly is the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Mar Vista to enter into the proposed loan contract with DWR and to institute a surcharge on customers' 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, Mar Vista 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.

Mar Vista 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.

Such changes in future rates should be accomplished by normal advice letter procedures. ✓

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 Mar Vista to place the surcharge in effect beginning July 1, 1980. This will enable the utility to accumulate initially a small surplus in the balancing account to compensate for the time lag between billing and collection dates, and to meet DWR's requirement that a 10% reserve fund be established.

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 \$154,500 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. The proposed surcharge will generate approximately \$11,000 per year. Approximately \$9,900 will be used to meet the loan payments. The remaining \$1,100, which is 10 percent of the loan payment, will be deposited with the fiscal agent in order to accumulate a reserve equal to two semiannual loan payments over a 10-year period.

5. The establishment of a reserve equal to two semiannual loan payments is required by DWR Administrative Regulations.

6. A rate surcharge will increase Mar Vista's annual gross revenues by approximately \$11,000 and increase the water rates by approximately \$9.15 per month for an average residential customer.

7. 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.

8. 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.

9. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Mar Vista 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.

10. 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.

11. This surcharge should be placed in effect beginning July 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 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, Mar Vista Water Co. 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 July 1, 1980.
2. Mar Vista Water Co. is authorized to borrow \$154,500 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.
3. Mar Vista Water Co. 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 Mar Vista Water Co.
4. As a condition of the rate increase granted herein, Mar Vista Water Co. shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.

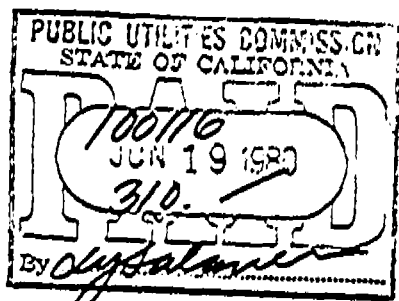
5. Plant financed through the SDWBA loan shall be permanently excluded from rate base.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Mar Vista Water Co. has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$310. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated JUN 17 1980 at San Francisco, California.

John E. Supon
President
Thomas L. Sturgeon

Richard D. Gravelle
Donald W. Grimes
Commissioners



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

APPENDIX A
Sheet 1 of 4

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Forest Glen Subdivision and vicinity, located one mile east of the community of Aptos, Santa Cruz County.

RATES

Monthly Quantity Rates:

Per Meter
Per Month

First 300 cu.ft., or less	\$ 6.75
Next 1,200 cu.ft., per 100 cu.ft.	1.00
Over 1,500 cu.ft., per 100 cu.ft.75

Annual Minimum Charge:

Per Service Connection (N)
Per Year : Per Month
Charge : Surcharge

For 5/8 x 3/4-inch meter	\$ 81.00	\$ 8.30	(N)
For 3/4-inch meter	128.00	9.15	
For 1-inch meter	210.00	12.50	

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

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. **91921**

(a) Insert Decision Number in Application No. 59585 before Filing Tariff.

(N)
|
(N)

APPENDIX A

Sheet 2 of 4

Schedule No. 1A

ANNUAL METERED SERVICE (Continued)SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.
2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charge shall be due the customer.

APPENDIX A
Sheet 3 of 4

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Forest Glen Subdivision and vicinity, located one mile east of the community of Aptos, Santa Cruz County.

RATES

	<u>Per Service Connection</u>		(N)
	<u>Per Year</u>		
	<u>Charge</u>	<u>: Surcharge</u>	
For a single-family residential unit, including premises	\$120.00	\$109.80	

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$120.00 per one inch or less service connection, per year. The total surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision No. 91921

(a) Insert Decision Number in Application No. 59585 before Filing Tariff.

(N)

APPENDIX A

Sheet 4 of 4

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE (continued)

SPECIAL CONDITIONS

1. The above flat rate and surcharge apply to a service connection not larger than one inch in diameter. (T) ✓

2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

3. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges and annual surcharge in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. A nonpermanent resident may elect to pay the annual charge and annual surcharge in two equal installments. Where such a resident has failed to pay the first half of the annual charge and surcharge due January 1, service will not be restored until the total annual charge and surcharge have been paid. (T) ✓

4. The opening bill for flat rate service shall be the established annual flat rate charge and surcharge for the service. Where initial service is established after the first day of any year, the portion of such annual charge and surcharge applicable to the current year shall be determined by multiplying the annual charge and surcharge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge and surcharge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer. (T)