

RR/mcm/lq

Decision No. 92116 AUG 19 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
Borrego Springs Water Company, Inc.,)
for authority to amend and execute)
a loan contract with the California)
Department of Water Resources for)
a \$298,700 loan to revise the)
method of allocating the surcharge)
to water rates to repay the)
principal and interest on such loan.)

Application No. 57698
(Filed November 21, 1977)
and Amendment
(Filed May 30, 1980)

F I N A L O P I N I O N

By this application, as amended, Borrego Springs Water Company, Inc., (Borrego Springs), a California corporation, requests authority to borrow a total of \$298,700, which includes additional loan funds of \$92,700, under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code 13850, et seq.), and to add a revised surcharge to water rates to repay the principal and interest on the loan.

Notices of the filing of Application No. 57698 and the Amendment to the application appeared on the Commission's Daily Calendars of November 22, 1977 and June 3, 1980, respectively.

By Interim and Supplemental Decisions Nos. 88535 and 89095, dated March 7, 1978 and July 11, 1978, in Application No. 57698, the California Public Utilities Commission (Commission) authorized Borrego Springs to borrow \$206,000 under the SDWBA, from the California Department of Water Resources (DWR) for a 30-year loan, at an interest rate of 5-1/2 percent per annum. The Commission also authorized Borrego Springs to institute a surcharge on existing customer rates to finance the SDWBA loan, and to impose such surcharge on an offset basis of 11.3 percent, applied over and above each customer's monthly bill for water usage. Borrego Springs placed the rate surcharge into effect on May 1, 1978.

The utility provides water service to approximately 766 residential and commercial metered customers in the unincorporated community of Borrego Springs, California, and vicinity, with a population of about 2,500 people. The community is located about 75 miles northeast of the City of San Diego, in San Diego County.

Borrego Springs' present water supply is obtained from three ground wells, with a fourth well becoming available in the near future. The water system requires no filtration and chlorination treatment because all ground water sources are of satisfactory bacteriological quality. Prior to applying for a SDWBA loan in 1977, the utility had serious deficiencies in its water system, which included deteriorating and leaking transmission and distribution mains, inadequate water storage capacity, and unsatisfactory ground water because of high nitrate concentration.

Borrego Springs corrected a portion of these deficiencies by the installation of approximately 21,500 feet of new transmission and distribution mains; addition of a 210,000-gallon storage tank; and drilling and repairing of two wells. Commission Interim and Supplemental Decisions Nos. 88835 and 89095 authorized the SDWBA loan funds for these water system improvements.

The SDWBA states, among other things, that water utilities failing to meet California Health and Safe Code standards and which cannot otherwise finance necessary plant improvements may apply to the DWR for low interest loans. The California Department of Health Service (DHS) is required by the SDWBA to analyze the public health issues, and determine plant improvements needed to meet water quality standards. DWR assesses the financial need 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 taken steps to maximize water conservation. Under the provisions of Sections 816 through 851

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of the Public Utilities Code, public utility water companies must obtain authorization from the 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 Borrego Springs' original and additional loan proposals and has set forth a summary of construction already undertaken or to be taken with the loan proceeds. By letters dated August 24, 1977 and March 28, 1980, DWR informed Borrego Springs of its eligibility for the original and additional loans under the SDWBA.

The items of construction and estimated costs for the original and additional SDWBA loans are detailed as follows:

<u>Item</u>	<u>Original Requirements</u>	<u>Cost</u>
1.	Installation of a 210,000-gallon storage tank.	\$ 45,000
2.	Installation of 9,500 feet of 8" mains to storage tank.	47,000
3.	Installation of 10,000 feet of 6" mains to interconnect Wells Nos. 2, 3 and 4.	40,000
4.	Replacement of old and deteriorated pipe by 2,000 feet of 6" mains.	11,000
5.	Repair and rebuilding of Wells Nos. 2 and 4.	50,000
6.	Engineering and other contingency costs.	<u>7,000</u>
	Subtotal	\$200,000
7.	DWR administrative fee, 3% of loan.	<u>6,000</u>
	Total estimated project Cost.	<u>\$206,000</u>
	<u>Additional Requirements</u>	
8.	Replacement of old and deteriorated pipe by 10,000 feet of 6" mains.	\$ 57,000
9.	Additional repair and drilling costs pertaining to Well No. 4.	30,000
10.	Engineering and other contingency costs.	<u>3,000</u>
	Subtotal	\$ 90,000
11.	DWR administrative fee, 3% of loan	<u>2,700</u>
	Total estimated project cost	<u>\$ 92,700</u>
	Grand total estimated project cost	<u>\$298,700</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 revenue to meet the semiannual payments on the SDWBA loan will be obtained from surcharges on all metered 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 acceptable to DWR be selected if appropriate.

The annual requirements for debt service on the total loan of \$298,700 will be approximately \$22,654. The amount of the revised surcharge to repay principal, interest and necessary reserve on this loan will be in direct proportion to the capacity of each customer's meter. The following revised surcharge would produce approximately \$1,888 per month, requiring a water rate surcharge of approximately \$2.10 per month for each residential and commercial customer with a 5/8" x 3/4" meter.

REVISED SURCHARGE SCHEDULE

<u>Size of Meter</u>	<u>Monthly Surcharge</u> ^{1/}
5/8" x 3/4"	\$2.10
3/4"	2.35
1"	3.15
1 1/2"	4.20
2"	5.70
3"	10.50
4"	14.30

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

Borrego Springs' present rates were authorized by Commission Resolution No. W-2673, effective July 2, 1980.

The estimated annual gross revenues for 1980 at present rates will be about \$159,000. The yearly increase of approximately \$8,600 represents the amount of the annual loan surcharge to repay the additional \$92,700 SDWBA loan, plus the 10 percent reserve required on the total SDWBA loan of \$298,700. The \$8,600 yearly increase under the SDWBA loan revised surcharge will increase Borrego Springs' revenues by approximately 5.4 percent.

On June 19, 1980, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Borrego Springs High School, Borrego Springs, California to explain the SDWBA loan program. At the direction of the Commission, Borrego Springs sent a letter to all customers notifying them of the meeting. Only 13 of Borrego Springs' customers were present during the public meeting. The staff accountant did not receive any letters from the utility's customers expressing their views about the SDWBA loan program. Also participating in the meeting were representatives from DWR, DHS and Borrego Springs.

Overall, the Borrego Springs' customers who attended the meeting indicated their support for the additional proposed water system improvements amounting to \$92,700, and the revision in the method of allocating the rate surcharge to repay the total SDWBA loan of \$298,700. Some of the customers present asked questions to clarify the SDWBA loan program.

One customer asked what will happen when new customers are connected to the utility's system after the SDWBA proposed plant improvements are completed. The staff accountant assured him that all new customers will be billed for the surcharge. If a significant credit balance is accumulated in the SDWBA balancing account the surcharge will be adjusted in the future. Another customer asked about having to pay the rate surcharge throughout the whole year, whereas he is a resident of Borrego Springs only part of the year. He was told that the new water system facilities will be available for use all year long, and that the utility's customers are paying for this

availability, whether or not they occupy their homes the entire year. The water system facilities wear out at the same rate whether or not they are used and interest accrues on the SDWBA loan throughout the entire year.

Another person wanted to know why the rate surcharge allocation method was being revised based on the capacity of a customer's meter. The DWR and staff accountant representatives each stated that basing the rate surcharge on the capacity of the meter is a more reliable method of reasonably assuring that the utility will be able to make the SDWBA semiannual loan payments to DWR. Basing the rate surcharge on consumption or usage does not provide the same degree of certainty of revenues generated.

At the conclusion of the public meeting, all customers present voted unanimously in favor of the additional SDWBA loan program and revision in the method of allocating the rate surcharge.

The staff reviewed the application as amended and concludes that the proposed additional 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 Borrego Springs to enter into the proposed amended loan contract with DWR and to institute a revised 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, Borrego Springs 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.

Borrego Springs 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 revised 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 Borrego Springs to commence and complete construction on the additional water system improvements totaling \$92,700, the utility desires to make its first drawdown of the additional SDWBA loan funds about September 1, 1980. Therefore, it is necessary for Borrego Springs to place the revised surcharge in effect beginning September 1, 1980.

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 \$298,700 including an additional \$92,700 and 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 revised surcharge will generate approximately \$22,654 per year. Approximately \$20,444 will be used to meet the loan payments. The remaining \$2,210, which is about 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 revised rate surcharge will increase Borrego Springs' annual gross revenues by approximately \$8,600 and increase the water rates by approximately \$0.14 per month for an average residential or commercial customer with a 5/8" x 3/4" meter.
7. The revised rate surcharge which is established to repay the SDWBA loan should last as long as the loan. The revised 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.

Borrego Springs would establish a balancing account to be credited with revenue collected through the revised 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 revised 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 revised surcharge should be placed in effect beginning September 1, 1980 so Borrego Springs will be able to commence construction of the additional water system improvements totaling \$92,700, immediately after that date.

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, Borrego Springs Water Company, 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 September 1, 1980.

2. Borrego Springs Water Company, Inc., is authorized to borrow \$298,700 from the State of California, to execute the amended loan contract, and to use the proceeds for the purposes specified in the application, as amended.

3. Borrego Springs Water Company, Inc., 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 Borrego Springs Water Company, Inc.

4. As a condition of the rate increase granted herein, Borrego Springs Water Company, 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.

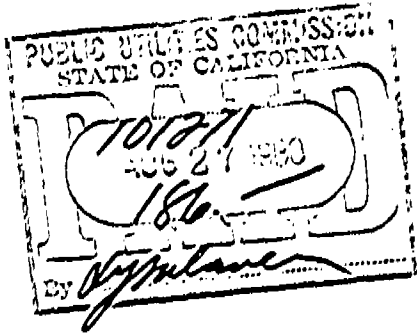
5. Plant financed through the SDWBA loan shall be permanently excluded from rate base.

The authority granted by this order to issue an evidence of indebtedness and to execute an amended loan contract will become effective when Borrego Springs Water Company, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code for the additional SDWBA loan of \$92,700, which fee is \$186. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated AUG 19 1980, at San Francisco, California.

John E. Boyer
President
Harmon L. Steyer

Richard D. Gravelle
Thomas M. Jones
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

Borrego Valley and vicinity, San Diego County.

RATES

Minimum Charge:	<u>Per Meter</u>	<u>Per Month</u>	(N)
	Charge :	Surcharge	
For 5/8 x 3/4-inch meter	\$ 3.00	\$ 2.10	 (N)
For 3/4-inch meter	3.50	2.35	
For 1-inch meter	5.00	3.15	
For 1-1/2-inch meter	9.00	4.20	
For 2-inch meter	14.00	5.70	
For 3-inch meter	25.00	10.50	
For 4-inch meter	40.00	14.30	

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

Quantity Rates:

	<u>Per Meter</u>	<u>Per Month</u>
First 400 cu.ft., or less	\$ 3.00	
Next 2,600 cu.ft., per 100 cu.ft.42	
Next 5,000 cu.ft., per 100 cu.ft.40	
Over 8,000 cu.ft., per 100 cu.ft.34	

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) (N)

(a) Insert Decision Number in Application No. 57698 before filing tariff.

SPECIAL CONDITION

Consumers requiring water in quantities amounting to over 8,000 cubic feet in any calendar month, may be required to take water during off-peak hours for uses such as irrigating golf links, municipal parks, and for filling swimming pools.