

A. 59766 - RR/EA

Decision No. 92117 ' AUG 19 1980**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)
 Jacob Czerwieniec, dba Loleta)
 Water Works 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. 59766
 (Filed June 26, 1980)

O P I N I O N

Jacob Czerwieniec, dba Loleta Water Works (Loleta), requests authority to borrow \$61,800 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 59766 appeared on the Commission's Daily Calendar of June 27, 1980.

The utility provides water service to approximately 195 customers in the unincorporated community of Loleta with a population of about 600. The community is located twelve miles south of the City of Eureka, Humboldt county. The 195 service connections consist of 10 flat rate and 185 metered services.

Loleta's present water supply is obtained from springs and two wells. The system has serious deficiencies including inadequate protection and water treatment for both the surface and ground water sources of supply, high manganese and iron content and high turbidity.

Loleta proposes to correct the deficiencies in its water distribution system by the installation of manganese and iron removal equipment, installation of a new well, pump house and fencing and discontinuing the collection and use of spring water.

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 Humboldt - Del Norte County Department of Public Health (HDNPH) 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 HDNPH has reviewed Loleta's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter date May 8, 1980, DWR informed Loleta of its eligibility for a loan under the SDWBA.

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

	<u>Description of Item</u>	<u>Estimated Cost</u>
1.	Iron and Manganese Removal Equipment, New Reservoir Site	\$15,000.00
2.	Drill New Well at Pugh Road Location	4,000.00
3.	Well Pump & Plumbing	2,000.00
4.	Iron and Manganese Removal Equipment, New Well	15,000.00
5.	Automatic Controls Both Well Sites	5,000.00
6.	Pumphouse Building	3,500.00

7.	Electrical Wiring	1,500.00
8.	10% Contingency	6,000.00
9.	Engineering and Labor	5,000.00
10.	Misc. Expenses: Fencing	<u>3,000.00</u>
	Landscaping, Painting, Backhoe	
	Subtotal	60,000.00
11.	DWR Administrative Fee, 3% of Loan	<u>1,800.00</u>
		\$61,800.00

The proposed loan from DWR will provide for a 12-year repayment schedule with semiannual payments of principal and interest, at an interest rate of 6- $\frac{1}{2}$ 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 over collection 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 will be approximately \$8,250. 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 \$690 per month, requiring an increase in water rates of approximately \$3.00 per month for each residential customer.

Surcharge Schedule

<u>Size of Service or Meter</u>	<u>Monthly Surcharge</u>
Residential (1)	\$3.00
3/4" meter	4.50
1" meter	7.50
1½" meter	15.00
2" meter	24.00
3" meter	75.00
6" meter	150.00

(1) 5/8" x 3/4" meter or 3/4" service

(2) This surcharge is in addition to regular charges for water service.

Loleta's present rates were authorized by Commission Resolution No. W-1680, effective February 15, 1975.

The estimated annual gross revenues for 1980, at present rates will be about \$26,500. The \$8,250 yearly increase under the SDWBA loan surcharge thus would increase Loleta's revenues by approximately 31%.

On July 24, 1980, staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Loleta Grammar School, Loleta, California, to explain the SDWBA program. The meeting was attended by 18 customers of the utility. Also participating in the meeting were representatives from DWR, DHS, HDBPH and Loleta. At the direction of the Commission, Loleta 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. The discussion centered on the present problem areas and the solutions proposed by the SDWBA project. Many of the customers complained about the manganese

and iron contents in the water. They spoke of their inability to use their dishwashers and frequently having to replace pumps in their washing machines. The proposed solution to bring the iron and manganese within acceptable standards is to discontinue the present spring water collection system and to install an effective water treatment system. The SDWBA project provided for drilling a new well as a primary water supply and installing an iron and manganese treatment system.

The accumulation of silt was another problem that received considerable discussion. It is caused by the present spring collection system and will be eliminated by the installation of a new well. After the new well is operational the entire water system will be supplied from wells.

The present spring water collection system is the cause of high turbidity and on occasion causes bacteriological contamination. The solution to this health problem is again to discontinue the use of the spring water collection system and having a new well as a source of the water supply.

The notice which was sent to all customers advising them of the public meeting invited those persons unable to attend the meeting to write to the staff. No letters were received.

At the conclusion of the meeting, on a show of hands, 17 customers voted in favor of the SDWBA proposed plant improvement program and rate surcharge and one customer 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 Loleta 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, Loleta 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 would 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.

Loleta 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 Loleta to place the surcharge in effect beginning October 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 \$61,800 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. The proposed surcharge will generate approximately \$8,250 per year. Approximately \$7,500 will be used to meet the loan payments. The remaining \$750, 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 Loleta's annual gross revenues by approximately \$8,250 and increase the water rates by approximately \$3.00 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. Loleta 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 October 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, Loleta Water Works 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 October 1, 1980.

2. Loleta Water Works is authorized to borrow \$61,800 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Loleta Water Works 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 Loleta Water Works.

4. As a condition of the rate increase granted herein, Loleta Water Works 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 Loleta Water Works has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$124. In all 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. Bayne
President
William L. Steger
Clare J. Delgado
Richard D. Gravelle
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
101234
AUG 25 1980
124.
By [Signature]

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

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Loleta and vicinity, located approximately 10 miles south of Eureka, Humboldt County.

RATES

		<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:		
First	400 cu.ft. or less	\$ 7.20
Next	3,600 cu.ft., per 100 cu.ft.	1.00
Next	6,000 cu.ft., per 100 cu.ft.70
Next	15,000 cu.ft., per 100 cu.ft.50
Over	25,000 cu.ft., per 100 cu.ft.30

Minimum Charge:

		<u>Per Service Connection</u> <u>Per Month</u>	
		Charge	:Surcharge

Minimum Charge:

For	5/8 x 3/4-inch meter	7.20	3.00	(N)
For	3/4-inch meter	9.00	4.50	
For	1-inch meter	14.50	7.50	
For	1 1/2-inch meter	21.60	15.00	
For	2-inch meter	31.20	24.00	
For	3-inch meter	44.40	45.00	
For	4-inch meter	72.00	75.00	
For	6-inch meter	108.00	150.00	(N)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the 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. 92117. ' (N)

- (a) Insert Decision Number in Application No. 59766 before Filing Tariff. (N)

APPENDIX A
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Schedule No. 2
GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Loleta and vicinity, located approximately 10 miles south of Eureka, Humboldt County.

RATES

	<u>Per Service Connection Per Month</u>		
	Charge	: Surcharge	
1. For a single-family residential unit, including premises not exceeding 10,000 sq.ft. in area	\$ 8.00	3.00	(N)
a. For each additional single-family residential unit on the same premises and served from the same service connection	5.00	1.90	
b. For each 100 sq.ft. of premises in excess of 10,000 sq.ft.01	None	
2. For each store, shop or hall	8.00	3.00	
3. Loleta Public School	37.20	37.50	(N) ✓

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$8.00 per one inch or less service connection, per month. The total surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision No. 92117

- a. Insert Decision Number in Application No. 59766 before Filing Tariff.

(N)

(N)