

RR/CFF-RI

Decision No. 92188 SEP 3- 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)	
of Mr. Harold Farr dba Tahoe)	
Park Water Company to borrow)	Application No. 59565
funds under the Safe Drinking)	(Filed April 2, 1980)
Water Bond Act, and to add a)	
surcharge to water rates to repay)	
the principal and interest on)	
such loan.)	

O P I N I O N

Harold Farr, dba Tahoe Park Water Company (Tahoe Park), requests authority to borrow \$282,014 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.

Notice of the filing of Application No. 59565 appeared on the Commission's Daily Calendar of April 3, 1980.

The utility provides water to an unincorporated area including the Tahoe Park (Park) and Miramar Heights (Miramar) Systems or Subdivisions with approximately 300 customers, and to the Tahoe Sierra Estates (Sierra) System or Subdivision with about 50 customers. The approximate population in the utility's service area is about 700. The older Park and Miramar Systems adjoin each other, whereas the newer Sierra System is noncontiguous to these two systems. The Tahoe Park service area is located about two miles south of the community of Tahoe City, on the west shore of Lake Tahoe, Placer County. The 350 service connections consist of 332 flat rate and 18 metered services.

Tahoe Park's present water supply is obtained from a spring located at an elevation above the utility's service area, and from two separate intakes from Lake Tahoe. The present water system has chlorination treatment facilities to help prevent contamination of the water supply.

Tahoe Park has serious deficiencies within its three water systems including deteriorating transmission and distribution mains, frequent periods of low water pressure or outages, inadequate water storage capacity facilities and insufficient spring diversion, Lake Tahoe intake and pumping facilities.

Tahoe Park proposes to correct the deficiencies in its water distribution system by the installation of approximately 11,860 feet of new water mains, addition of a new 100,000 gallon storage tank, enlargement and reconstruction of the spring diversion and Lake Tahoe intake and installation of a pump. In addition, the utility proposes to install 500 feet of a six-inch main to interconnect its Park and Miramar Systems with the Sierra System and to meter its remaining flat rate services.

The SDWBA states, among other things, that water utilities failing 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 California Department of Health Service (DHS) is required by SDWBA to analyze the public health issues, and determine plant improvements needed to meet water quality standards. DWR assesses 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 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 Tahoe Park's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated October 31, 1979, DWR informed Tahoe Park 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.	Installation of 7,950 Feet of 6" Mains @ \$11.50 Per Foot.	\$ 91,425
2.	Installation of 3,910 Feet of 4" Mains @ \$9.00 Per Foot.	35,190
3.	Construction of an Interconnection from the Park and Miramar Systems to the Sierra System - 500 Feet of 6" Main @ \$11.50 Per Foot.	5,750
4.	Construction of a 100,000 Gallon Storage Tank	30,000
5.	Installation of a Pump	7,500
6.	Enlargement and Reconstruction of Spring Diversion and Lake Tahoe Intake	15,000
7.	Installation of Meters for Remaining Flat Rate Services	73,800
8.	Engineering and Other Contingency Costs	<u>15,135</u>
	Subtotal	\$ 273,800
9.	DWR Administrative Fee, 3% of Loan	<u>8,214</u>
10.	Total Estimated Project Cost	<u><u>\$ 282,014</u></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- $\frac{1}{2}$ 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 \$21,234. 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 \$21,234 per year, requiring an increase in water rates of approximately \$56.40 per year for each residential customer.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Annual Surcharge (2)</u>
Residential (1)	\$56.40
3/4" Meter	84.60
1" Meter	141.00
1½" Meter	232.00
2" Meter	451.20

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

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

Tahoe Park's present rates were authorized by Commission Resolution No. W-2142, effective July 1, 1977.

The estimated annual gross revenues for 1980, at present rates will be about \$27,100. The \$21,234 yearly increase under the SDWBA loan surcharge thus would increase Tahoe Park's revenues by approximately 78.4%.

On April 23, 1980, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Tahoe City Public Utilities District (TCPUD) office, Tahoe City, California, to explain the SDWBA program. At the direction of the Commission, Tahoe Park sent a letter to all customers notifying them of the meeting. Only ten customers attended the meeting. Also participating in the meeting were representatives from DWR, DHS and Tahoe Park.

After a general introduction which included an explanation of all the basic aspects of the loan proposal, the floor was opened for questions. Six of the customers in attendance live in the Sierra Subdivision. All six expressed opposition to the SDWBA loan proposal. Their primary concern was that they were not going to receive equal benefits from the water system improvements. They felt that the Park and Miramar System customers would receive more benefits from the SDWBA loan project, while all customers were being asked to pay the same rate surcharge. As an alternative, their spokesperson asked if Sierra could be hooked up for water on a standby basis with the TCPUD, particularly during periods of low water pressure or outages. A representative of TCPUD stated that a standby hookup was not feasible because of lack of available water supply.

The DHS and staff accountant representatives both mentioned that the proposed SDWBA water system improvements would mutually benefit all of Tahoe Park's customers, particularly because of the construction of the interconnection between the two older systems

of the utility with the newer Sierra system. The construction of the interconnection and other water system improvements meant that all three systems of Tahoe Park would have more reliable water service through increased source and storage capacity, water pressure and fire protection. There would also be less water outages and losses because of newer mains, and the water system improvements should offer greater protection against contamination of the utility's water supply. The owner of Tahoe Park stated that he plans to replace the existing Sierra System 3½-inch pipe that would tie-in with the 6-inch interconnection. The replacement for the 3½-inch pipe would have a larger capacity, and the cost of this project is to be borne by the utility. The owner of Tahoe Park also mentioned that he already had spent approximately \$7,000 of the utility's operating funds to replace deteriorating and rotting mains with new four-inch mains in the Sierra System. The DHS representative stated that all three subdivisions of the Tahoe Park System will equally benefit from the proposed SDWBA project improvements. The improvements are needed to meet minimum water quality and quantity standards. The DWR and DHS representatives both stated that the current DHS Permit Amendment and Engineering Report describing Tahoe Park's water system deficiencies and proposed improvements are applicable to all three systems comprising the utility. Another customer from one of the other systems stated that the Sierra Subdivision customers should pay their fair share of the utility's rate surcharge to finance the SDWBA water system improvements.

The six customers from the utility's Sierra System remained unconvinced. Their spokesperson stated he would conduct a written poll of the Sierra System customers who were not present at the meeting. Upon obtaining their opinions, he would mail the results to the staff accountant.

Several customers questioned the necessity for metering the utility's remaining flat rate services. The DWR representative stated that the installation of meters in the Lake Tahoe area is a DWR policy.

Due to the poor customer turnout for the public meeting, with only four persons attending from the Park and Miramar Systems where the bulk of the utility's customers reside; the staff accountant decided not to take a vote of customer sentiment about Tahoe Park's SDWBA loan proposal. The other panel members agreed with this decision.

After the public meeting, the staff accountant requested that the owner of Tahoe Park obtain a written poll of customer sentiment on the SDWBA loan project. The owner of the utility wrote a letter to each customer in the Park and Miramar Subdivisions also enclosing a self-addressed postcard. In the letter, he asked that each customer read the postcard, and if the customer supported or concurred with the proposed SDWBA loan project, including the installation of meters, to sign the postcard and mail it to him. He also asked that if any customers had questions regarding the SDWBA water system improvements or proposed rate surcharge, to please contact the owner of Tahoe Park or his consulting engineer representative. The only contacts noted were written comments on a few of the postcards by Tahoe Park customers who responded to the poll. The owner of Tahoe Park transmitted to the Commission staff 83 postcards signed by customers from the utility's Park and Miramar Systems. The Commission staff also received the written results of the utility's Sierra System customer poll.

The following is a summary of response to the written poll of Tahoe Park's customers as tallied:

<u>System</u>	<u>Customers</u>			<u>Total</u>
	<u>For</u>	<u>Against</u>	<u>Mixed Opinions</u>	
Park & Miramar	71	4	8	83
Sierra(1)	<u>-0-</u>	<u>25</u>	<u>-0-</u>	<u>25</u>
Grand Total	<u>71</u>	<u>29</u>	<u>8</u>	<u>108</u>

- (1) The Sierra System customers who responded are members of the Tahoe Sierra Estates Association, a homeowners organization.

The notices sent to all customers inviting them to the public meeting also provided for those who could not attend, to write to the staff accountant. Only six letters were received. They contained mixed opinions on the SDWBA project.

While such polls and letters are valuable as expressions of customer sentiment, they do not, in themselves, provide an adequate basis for Commission decisions.

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 Tahoe Park to enter into the proposed loan contract with DWR and to institute a surcharge on customers' bills to pay 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, Tahoe Park would not have sufficient cash flow to meet the

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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 DWR has expressed a clear preference for the surcharge method of financing SDWEA loans, in lieu of rate base treatment, because the surcharge method provides greater security for its loans. The Commission considered this issue of surcharge vs. rate base in Application No. 57406 of Quincy Water Company ^{1/} wherein it concluded that the surcharge method, which requires a substantially lower initial increase in customer rates, is the most desirable method of financing SDWEA loans. ✓

The SDWEA 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 for income tax purposes only.

By adopting this surcharge method of accounting the Commission does not imply that Safe Drinking Water Bond Act financed plant should be treated any differently in event of condemnation by a public agency than if such plant had been included in the utility's rate base and had been financed in some other manner.

Tahoe Park 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.

^{1/} Decision No. 88973, dated June 13, 1978 (mimeo).

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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 interest on the SDWBA loan due in July 1981, it is necessary for Tahoe Park 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 \$282,014 including a three percent administrative charge by DWR.

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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 \$21,234 per year. Approximately \$19,300 will be used to meet the loan payments. The remaining \$1,934, 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. The rate surcharge will increase Tahoe Park's annual gross revenues by approximately \$21,234 and increase the water rates by approximately \$56.40 per year 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 should be permanently excluded from rate base for ratemaking purposes.

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9. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Tahoe Park 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 interest payment due in July 1981.

12. The type of written poll conducted by Applicant to determine customer sentiment is not a satisfactory sole basis for Commission decision making purposes.

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.

3. The poll conducted by Applicant should not be relied upon to determine customer sentiment in this proceeding.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Tahoe Park 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 October 1, 1980.

2. Tahoe Park Water Company is authorized to borrow \$282,014 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Tahoe Park 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 payment 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 Tahoe Park Water Company.

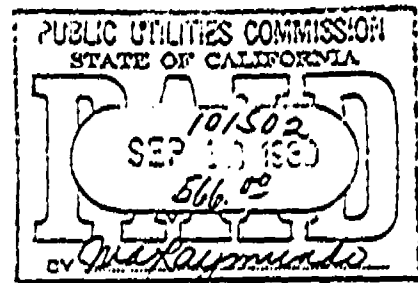
4. As a condition of the rate increase granted herein, Tahoe Park Water Company shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.

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

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Tahoe Park Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$566. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated SEP 3 - 1980, at San Francisco, California.

John E. Bryson President
James L. Stanger
Richard D. Kavelle
Clare T. DePaul
Sherwood W. Smith Commissioners



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

The unincorporated areas including Tahoe Park, Miramar Heights and Tahoe Sierra Estates subdivisions, and vicinity, located adjacent to State Highway 89, approximately 1 to 2 miles south of the community of Tahoe City, Placer County.

RATES

Per Meter
Per Month

Monthly Quantity Rates:

First	500 cu. ft. or less	\$4.00
Over	500 cu. ft., per 100 cu. ft.50

Annual Minimum Charge:

	<u>Per Meter Per Year (N)</u>	
	<u>Charge:</u>	<u>Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 48.00	\$ 56.40
For 3/4-inch meter	94.80	84.60
For 1-inch meter	138.60	141.00
For 1-1/2-inch meter	201.60	282.00
For 2-inch meter	278.40	451.20 (N)

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

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 (a). (N)

(a) Insert Decision Number in Application No. 59565 before filing tariff.

ANNUAL METERED SERVICE

SPECIAL CONDITIONS

1. The annual minimum charge and surcharge applies to service during the 12-month period commencing January 1, and is due in advance. A customer who has established his permanency by having paid for service during the preceding 12 months may elect at the beginning of the calendar year, to pay prorated minimum charges and surcharge in advance at intervals of less than one year (monthly, bimonthly, quarterly or semi-annually) 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. A nonpermanent resident may elect to pay the annual charge and 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 has been paid. (C)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum 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 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 and surcharge shall be due the customer. (C)

APPENDIX A
Sheet 3 of 4
Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated areas known as Tahoe Park, Miramar Heights and Tahoe Sierra Estates subdivisions, and vicinity, adjacent to State Highway 89, approximately 1 to 2 miles southerly of Tahoe City, Placer County.

RATES

	Per Service Connection (N) Per Year	
	<u>Charge:</u>	<u>Surcharge</u>
For a single-family residential unit or small business establishment, including premises	\$75.60	\$56.40
For each additional single-family residential unit or small business establishment on the same premises and served from the same service connection	63.00	47.00

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$75.60 per one inch or less 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 authorized by Decision (a).

(a) Insert Decision Number in Application No. 59565 before filing tariff.

(N)

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS

1. The above flat rates and surcharge apply to a service connection not larger than one inch in diameter.
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 and surcharge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and surcharge payment and the minimum meter charge and surcharge for the same period shall be made on or before that day.
3. The annual flat rate charge and surcharge applies to service during the 12-month period commencing January 1, and is due in advance. A customer who has established his permanency by having paid for service during the preceding 12 months may elect, at the beginning of the calendar year, to pay prorated flat rate charges and surcharge in advance at intervals of less than one year (monthly, bimonthly, quarterly or semi-annually) in accordance with the utility's established billing periods. A nonpermanent resident may elect to pay the annual charge 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 has been paid.
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 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 and surcharge shall be due the customer.

(C)