

Decision No. 92415

NOV 18 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 Winton Water Company, Inc., for)
 authority (1) to amend Loan Contract)
 E51010 with the California Department)
 of Water Resources to increase the)
 loan amount and extend the loan repay-)
 ment term; and (2) to revise the method)
 of computing and allocating the sur-)
 charge to water rates to repay the)
 principal and interest on such loan.)

Application No. 59875
(Filed August 12, 1980)

O P I N I O N

By Interim and Final Decisions Nos. 88945 and 89713, dated June 13, 1978 and December 12, 1978, respectively, in Application No. 57771, the California Public Utilities Commission (Commission) authorized Winton Water Co., Inc., (Winton), a California corporation, to borrow \$587,100 under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code 13850, et seq.), from the California Department of Water Resources (DWR) for a 30-year period, at an interest rate of 5-1/2 percent per annum. The Commission also authorized Winton to institute a surcharge on existing customer rates to finance the SDWBA loan, and to impose such surcharge at a fixed amount of \$2.70 per month for its flat rate customers with a 3/4-inch service connection. Almost all of Winton's customers are on a flat rate connection with a 3/4-inch service.

By this application, Winton requests authority to borrow an additional \$200,600, to extend the loan repayment period under the SDWBA, and to add a revised surcharge to water rates to repay the principal and interest on the loan.

Notice of the filing of Application No. 59875 appeared on the Commission's Daily Calendar of August 14, 1980.

Winton has approximately 1,560 connections in its water system, consisting of 1,550 flat rate and 10 metered services. The utility's service area is located in the unincorporated community of Winton and vicinity, approximately ten miles northwest of the City of Merced, in Merced County, with a population of about 7,500.

Winton's present water supply is obtained from three ground wells that include automatic chlorination treatment facilities to help prevent contamination of the water. The system does not require filtration equipment.

The proceeds of the original SDWBA loan were used to make specific plant improvements to Winton's water system. These improvements consisted primarily of the replacement of substandard water mains; installation of blow-off valves; rebuilding of existing pumps and installation of new wells, pumps, storage tanks, fire hydrants, flat rate services, valves and fittings and emergency chlorination equipment.

Since the time that the Commission authorized Winton to borrow the original SDWBA loan funds of \$587,100, the need has arisen for the utility to request authority to amend the DWR loan contract and seek an increase in the authorized SDWBA loan amount from \$587,100 to \$787,700. The requested additional loan funds of \$200,600 would be spent as follows:

1. To cover the additional amount of \$57,400 needed to complete the water system improvements originally authorized.
2. To construct a new well and make improvements to an existing well, to deal with the problem of contamination caused by the chemical DBCP at a cost of \$137,300 which includes contingency costs of \$20,600.
3. To fund additional DWR administrative fees amounting to approximately \$5,900.

The California Department of Health Services (DHS) has reviewed Winton's proposal for the additional loan and has determined the necessity for and granted approval of the utility's water system improvements to be made with the \$200,600. By letter dated June 5, 1980, DWR informed Winton of its eligibility for the additional loan under the SDWBA.

Winton also requests authority from the Commission to further amend the DWR loan contract providing for an increase in the repayment period from 30 years to 35 years. The interest rate of 5-1/2 percent per annum would remain the same. The additional revenue required to meet the semiannual payments on the SDWBA loan will be obtained from surcharges on all flat rate and metered customers.

Finally, Winton seeks authority to compute and allocate the SDWBA rate surcharge based on the size or capacity of each customer's meter or service connection. This procedure is a more reliable method of reasonably assuring that Winton will be able to make the SDWBA semi-annual loan payments to DWR. The Commission originally authorized the utility to impose the rate surcharge in part on the quantity of water used, which is applicable only to the small number of metered customers (10). Winton placed the rate surcharge into effect on March 1, 1979. Basing the rate surcharge on consumption or usage does not provide the same degree of certainty of revenues generated. The capacity of meter or service basis is also the method preferred by the DWR.

Since the time that the Commission authorized the original SDWBA loan of \$587,100 and established the original surcharge, Winton has experienced an increase in the number of service connections in its water system. Because of these added connections plus Winton's request to extend the SDWBA loan repayment period, the utility has not requested an increase in the rate surcharge, but only a change in the method of computation, which is proposed to be based on the size of the customer's meter or service connection.

As additional customers are connected to the utility's system, the total amount of revenue from the proposed revised rate surcharge probably will exceed the loan repayment requirements. Such surplus revenues will go to establish a reserve in accordance with DWR requirements, and such funds will be used only if Winton encounters future difficulties because of insufficient revenue generated by the SDWBA rate surcharge. Such overcollection will be deposited with the fiscal agent, to accumulate the appropriate reserve of approximately \$1,600 per year over a 10-year period. The utility will be expected to apply for revisions in the surcharge rates as appropriate. 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 \$52,570 to repay principal and interest and to accumulate an appropriate reserve on the loan. The amount of the surcharge should be in direct proportion to the capacity of each customer's meter or service connection. The following surcharge rates would produce approximately \$4,381 per month, enough to satisfy the annual requirements. These surcharges would require no increase in water rates for the 1,550 flat rate customers, but would require increases for nine residential customers with one-inch meters and a school with a six-inch meter.

REVISED SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge^{2/}</u>
Residential ^{1/}	
3/4" Meter	\$ 2.70
1" Meter	4.05
1-1/2" Meter	6.75
2" Meter	13.50
3" Meter	21.60
4" Meter	40.50
6" Meter	67.50
	135.00

^{1/} 5/8" x 3/4" Meter or 3/4" Service.

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

Because the utility stated in its application that the surcharge to be imposed on its customers would not be increased, we are unable at this time to authorize the revised surcharge rates except with respect to the \$2.70 rate for the residential class. For the ten remaining customers interim rates will be set at levels approximating their current surcharge payments: \$2.70 per month for the nine customers with one-inch meters and \$35.00 per month for the school. If, despite the expectation that new customer connections will increase surcharge revenues in the near future, Winton believes that surcharge revenues will prove inadequate to achieve the annual requirements stated above, the utility should apply by means of advice letter filing to place into effect the revised surcharge schedule set forth above.

On August 13, 1980, at the direction of the Commission, Winton sent a letter to all customers notifying them of the proposed amendments to the DWR loan contract pertaining to the increase in the loan amount and extension in the loan repayment terms. The customers were also informed about the revision in the method of computing and allocating the rate surcharge and how the proceeds of the increased loan would be spent. Also, on August 18 and 19, 1980, Winton published a notice in a newspaper of general circulation in its service area describing in general terms, the same material mentioned in the customer notice. Both notices emphasized that if the Commission authorized the additional SDWBA loan, there would be no increase in the rate surcharge for Winton's average residential customer with a 3/4-inch flat rate service.

Both notices requested that Winton customers write comments to a Commission staff accountant, expressing their views about the proposed loan amendments, or the proposed revision to the rate surcharge computation. The comments received indicated predominant customer sentiment in favor of both the proposed loan amendments and the revision to the rate surcharge computation.

The staff reviewed the application 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 Winton to enter into the proposed amended loan contract with DWR and to institute a revised surcharge on customers' bills to pay the loan.

The DWR has expressed a clear preference for the surcharge method of financing SDWBA 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

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

that the surcharge method, which requires a substantially lower initial increase in customer rates, is the most desirable method of financing SDWBA loans.

The revised SDWBA loan repayment surcharge should be separately identified on customers' bills. The utility plant financed through the revised 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 SDWBA 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.

Winton should establish a balancing account to be credited with revenue collected through the revised 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 revised 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 *by* in the future.

In order for the revised surcharge to produce enough revenue to meet the initial payment of interest on the SDWBA loan due in July 1981, it appears that Winton should make the advice letter filing suggested above to place the revised surcharge in effect beginning January 1, 1981. 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 an appropriate reserve fund be established.

Findings of Fact

1. The proposed water system improvements are needed to produce a healthful and 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 \$787,700 including the additional \$200,600 requested by Winton in this application.
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 would generate approximately \$52,570 per year. Approximately \$50,952 would be used to meet the loan payments. The remaining approximate \$1,600 would be deposited with the fiscal agent in order to accumulate an appropriate reserve over a 10-year period.
5. The establishment of an appropriate reserve equal to \$1,600 per year is required by DWR Administrative Regulations.
6. The proposed revised surcharge would increase Winton's annual gross revenues by approximately \$12,070; however, the water rates will not increase for an average residential customer.
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 should be permanently excluded from rate base for ratemaking purposes.

9. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Winton should maintain 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 should be reduced by payments of principal and interest on the loan. The revised rate surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

10. The utility stated in its application that the surcharge to be imposed on its customers would not be increased.

11. A revised surcharge schedule with surcharges set in direct proportion to the capacity of the customer's service or meter would provide for surcharges ranging between \$2.70 and \$135.00 per month.

12. At the present time all residential customers are being required to pay a surcharge of \$2.70 per month and the one other customer, a school served by a six-inch meter is being required to pay a surcharge on a metered basis of approximately \$35.00 per month. Interim surcharge rates should be set on the basis of meter or service connection size at these present levels.

13. The 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.

14. The revised surcharge should be placed in effect beginning January 1, 1981, so as to accumulate funds to make the initial interest payment due in July 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, Winton 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 January 1, 1981.

2. On or after the effective date of this order, Winton Water Company, Inc., is authorized to make an advice letter filing to place in effect the revised rate schedule attached to this order as Appendix B. Copies of such filing shall be mailed to all customers whose rates would be increased thereby.

3. Winton Water Company, Inc., is authorized to borrow an additional \$200,600 from the State of California, to execute the amended loan contract, and to use the proceeds for the purposes specified in the application.

4. Winton 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 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 Winton Water Company, Inc.

5. As a condition of the rate revision granted herein, Winton 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.

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

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The authority granted by this order to issue an evidence of indebtedness and to execute an amended loan contract will become effective when Winton Water Company, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$402. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated NOV 18 1980, at San Francisco, California.

John E. Bryan
President
Deborah L. Steyer
Richard D. Howell
Clare J. DeWitt
Samuel J. Jones
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
102637
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402.
By [Signature]

APPENDIX A
Sheet 1 of 2

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Winton and vicinity, Merced County.

RATES

Service Charge:	<u>Per Meter</u>	<u>Per Month</u>	(N)
	Charge	: Surcharge	
For 5/8 x 3/4-inch meter	\$ 3.00	\$ 2.70	
For 3/4-inch meter	3.30	2.70	
For 1-inch meter	4.50	2.70	
For 1-1/2-inch meter	6.00	5.00	
For 2-inch meter	8.10	10.00	
For 3-inch meter	15.00	17.00	
For 4-inch meter	20.40	25.00	
For 6-inch meter	33.90	35.00	(N)

Quantity Rates:

	<u>Per Meter</u>
	<u>Per Month</u>
First 500 cu.ft., per 100 cu.ft.	\$0.35
Over 500 cu.ft., per 100 cu.ft.	0.42

The service charge is applicable to all metered 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.

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. 59875 before filing tariff.

(N)
|
(N)

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Winton and vicinity, Merced County.

RATES

	Per Service Connection (N)	
	Per Month	
	Without Surcharge	Monthly Surcharge
1. For a single-family residential unit, including premises not exceeding 9,000 sq.ft. in area	\$7.30	\$2.70
a. For each additional single-family residential unit on the same premises and served from the same service connection	4.90	2.70
b. For each 100 sq.ft. of premises in excess of 9,000 sq.ft.039	.011
2. For each commercial launderette, per washing machine	2.90	1.10
3. For each freezer locker plant	9.60	3.60
4. For each store, market, shop or service station ..	7.30	2.70
5. For each hotel, apartment or motel, including first unit, office and utility room	7.30	2.70
a. For each additional unit	4.90	2.70 (N)

SPECIAL CONDITIONS

1. The above flat rates apply to a residential 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 \$7.30 per one-inch or less 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 authorized by Decision No. (a) _____.

(a) Insert Decision Number in Application No. 59875 before filing tariff.

APPENDIX B
Sheet 1 of 2

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Winton and vicinity, Merced County.

RATES

		<u>Per Meter Per Month</u>	(N)
		<u>Charge</u> :	<u>Surcharge</u>
Service Charge:			
For 5/8 x 3/4-inch meter		\$ 3.00	\$ 2.70
For 3/4-inch meter		3.30	4.05
For 1-inch meter		4.50	6.75
For 1-1/2-inch meter		6.00	13.50
For 2-inch meter		8.10	21.60
For 3-inch meter		15.00	40.50
For 4-inch meter		20.40	67.50
For 7-inch meter		33.90	135.00

Quantity Rates:

	<u>Per Meter</u>
	<u>Per Month</u>
First 500 cu.ft., per 100 cu.ft.	\$0.35
Over 500 cu.ft., per 100 cu.ft.	0.41

The service charge is applicable to all metered 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.

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. 59875 before filing tariff.

APPENDIX B
 Sheet 2 of 2
 Schedule No. 2
FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Winton and vicinity, Merced County.

RATES

	Per Service Connection (N) Per Month	
	<u>Without Surcharge</u>	<u>Monthly Surcharge</u>
1. For a single-family residential unit, including premises not exceeding 9,000 sq.ft. in area	\$7.30	\$2.70
a. For each additional single-family residential unit on the same premises and served from the same service connection	4.90	2.70
b. For each 100 sq.ft. of premises in excess of 9,000 sq.ft.039	.011
2. For each commercial laundrette, per washing machine	2.90	1.10
3. For each freezer locker plant	9.60	3.60
4. For each store, market, shop or service station ..	7.30	2.70
5. For each hotel, apartment or motel, including first unit, office and utility room	7.30	2.70
a. For each additional unit	4.90	2.70 (N)

SPECIAL CONDITIONS

1. The above flat rates apply to a residential 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 \$7.30 per one-inch or less 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 authorized by Decision No. (a) _____.

(a) Insert Decision Number in Application No. 59875 before filing tariff.

(N)

(N)