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ORIGINAL

Decision No. 92512 DEC 16 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Rio Plaza Water Company, Inc., to modify Decisions 88834, 90058 and 90787 to revise the rate surcharge in the Rio Plaza Subdivision in the vicinity of Ventura County.

Application No. 60052  
(Filed November 3, 1980)

O P I N I O N

By Interim, Final and Supplemental Decisions Nos. 88834, 90058 and 90787, dated May 16, 1978, March 13, 1979 and September 12, 1979, respectively, in Application No. 57461, as amended, the California Public Utilities Commission (Commission) authorized Rio Plaza Water Company, Inc., (Rio Plaza) to borrow \$365,650 from the California Department of Water Resources (DWR) under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code 13850 et seq.). The proceeds of the SDWBA loan were used to finance water system improvements, and the terms of this loan provided 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 Commission also authorized Rio Plaza to institute a surcharge on existing customer rates to finance the SDWBA loan, and compute such surcharge on the quantity of water used. Based on an estimated average residential and commercial customer consumption of approximately 1,700 cubic feet of water per month, a rate surcharge of \$0.23 per 100 cubic feet would provide revenue of approximately \$25,000 per annum, for the semiannual payment of

principal and interest on the loan. It was estimated that the rate surcharge would produce approximately \$2,070 per month, or \$4 per month for the average residential and commercial customer. Rio Plaza placed the rate surcharge into effect on April 1, 1979, and construction on the water system improvements was completed during August 1979.

Rio Plaza has approximately 508 metered connections in its water system. The utility's service area is located in a portion of the unincorporated community of El Rio, approximately eight miles east of the City of Ventura in Ventura County, with a population of approximately 2,000.

Rio Plaza has noted that from the time the original rate surcharge was put into effect, such surcharge has generated approximately \$3.50 per month, rather than the \$4 per month originally estimated. The higher rates caused by the imposition of the surcharge has resulted in Rio Plaza's customers consuming less water than originally estimated. These customers live in some of the lowest cost housing in Southern California, with many on limited, fixed incomes and some receiving government welfare benefits. The shortage in surcharge revenues makes it uncertain whether Rio Plaza will be able to meet the semiannual loan payments to DWR.

In order to overcome the financial difficulties pertaining to its SDWBA loan, Rio Plaza has requested authority to compute the rate surcharge based on the size or capacity of its customers' meters, rather than on the quantity of water used. Basing the rate surcharge on the capacity of the meter is a more certain method of generating sufficient revenues to repay the SDWBA loan. The capacity of meter basis is also the method preferred by DWR, the state agency that acts as the lender and fiscal administrator for SDWBA loans. The loan amount of \$365,650, repayment period and interest rate will not change because of Rio Plaza's request.

Notice of the filing of Application No. 60052 appeared on the Commission's Daily Calendar of November 7, 1980.

The revenue to meet the semiannual payments on the SDWBA loan will be obtained from revised surcharges on all metered services. The annual requirements for debt service will be approximately \$25,026. The amount of the revised surcharge to repay principal and interest on this loan will be in direct proportion to the capacity of each customer's meter. The following revised surcharge schedule would produce approximately \$2,086 per month, requiring a water rate surcharge of approximately \$4.10 per month for each residential and commercial customer with a 3/4-inch meter, the smallest meter size in Rio Plaza's present water system.

REVISED SURCHARGE SCHEDULE

<u>Size of Meter</u>	<u>Monthly Surcharge</u> <sup>1/</sup>
3/4-inch	\$ 4.10
1-inch	5.55
1-1/2-inch	7.40
2-inch	10.00
3-inch	18.50
4-inch	25.20

<sup>1/</sup> This surcharge is in addition to regular charges for water service.

On July 8, 1980, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the El Rio School District Office, El Rio, California, to explain the SDWBA revised rate surcharge. At the direction of the Commission, Rio Plaza sent a letter to all customers notifying them of the meeting; however, only four of the utility's customers attended. Also participating in the meeting were representatives from DWR and Rio Plaza. After a general introduction which included an explanation of the SDWBA revised rate surcharge, the floor was

opened for questions from the customers. The four customers wanted to know why the rate surcharge allocation method was being revised based on the capacity of the meter. Both the DWR representative and staff accountant 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; and that 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, three of the four customers voted in favor of revising the method of allocating the SDWBA rate surcharge. One of the customers who voted in favor represents the El Rio School District, whose premises contain the largest service connection in Rio Plaza's water system, a 3-inch capacity meter.

The staff reviewed the application and concludes that the proposed revised rate surcharge is the best method of assisting Rio Plaza toward overcoming its financial difficulties in repaying its SDWBA loan. The Commission, therefore, will authorize Rio Plaza to compute the SDWBA rate surcharge based on the capacity of its customers' meters.

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 versus rate base in Application No. 57406 of Quincy Water Company<sup>1/</sup> wherein it concluded that the surcharge method, which requires a substantially lower initial increase in customer rates, is the most desirable method of financing SDWBA loans.

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

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 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.

Rio Plaza should maintain 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 rate surcharge authorized herein will cover only the cost of the loan incurred to finance the added plant. It will not preclude the likelihood of future rate increase requests to cover rising costs of repair materials, wages, property taxes, power bills, or other operating expenses that may be incurred in the future.

Findings of Fact

1. The completed water system improvements were 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 cost an estimated \$365,650 including a three percent administrative charge by DWR.

3. The completed borrowing was for proper purposes and the money, property or labor procured or paid for by the issue of the loan authorized by prior Commission decisions was reasonably required for the purposes specified, which purposes were not, in whole or in part, reasonably chargeable to operating expenses or to income.

4. The proposed revised surcharge would generate approximately \$25,026 per year to meet the loan payments.

5. The revised 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.

6. The utility plant financed through this SDWBA loan should be permanently excluded from rate base for ratemaking purposes.

7. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Rio Plaza should maintain a balancing account to be credited with revenue collected through the revised rate 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.

8. The revision 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.

9. This revised rate surcharge should be placed in effect beginning January 1, 1981.

10. No formal protests under Rule 8 have been received; therefore, no public hearing is necessary.

11. All substantial customer objections have been explained and resolved.

Conclusion of Law

The application should be granted to the extent set forth in the following order because the revised rates are just and reasonable.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Rio Plaza 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. Rio Plaza 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 California Department of Water Resources. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Rio Plaza Water Company, Inc.

3. As a condition of the rate revision granted herein, Rio Plaza 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.

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

The authority granted by this order to compute the SDWBA rate surcharge based on the size or capacity of the customers' meters is effective the date hereof.

Dated DEC 16 1980, at San Francisco, California.

John E. Byron  
President

Richard D. Gavelle

Clair T. Dierick

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Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.



APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Rio Plaza Subdivision in the vicinity of El Rio, Ventura County.

RATES

Service Charge:	<u>Per Meter</u>	<u>Per Month</u>	(N)
	<u>Charge</u>	<u>: Surcharge</u>	
For Short 3/4-inch meter (7.5-inch length) .....	\$ 3.00	\$ 4.10	 (N)
For 1-inch meter .....	4.50	5.55	
For 1-1/2-inch meter .....	6.00	7.40	
For 2-inch meter .....	8.10	10.00	
For 3-inch meter .....	15.00	18.50	
For 4-inch meter .....	20.40	25.20	

Quantity Rate:

All water, per 100 cu.ft. .... \$ 0.54

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rate.

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. 60052 before filing tariff. (N)