

Decision No. 92711 FEB 18 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of  
Lucerne Water Company, a California  
Corporation, 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.

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) Application No. 60101  
) (Filed November 21, 1980)  
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O P I N I O N

By this application, Lucerne Water Company (Lucerne) requests authority to borrow \$817,500 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. 60101 appeared on the Commission's Daily Calendar of November 25, 1980.

The utility provides water to the unincorporated community of Lucerne and Riviera subdivision located on the hillsides adjacent to Lucerne. The permanent population in the utility's service area is about 1,300. Maximum seasonal population increases to 2,500 persons. The Lucerne service area is located at Lucerne, California, on the east shore of Clear Lake, Lake County. The service connections consist of 3 flat rate and 1,076 metered services.

Lucerne's present water supply is derived from Clear Lake. Treatment consists of pumping, adding alum, detention in a pre-treatment tank used for mixing, coagulation and sedimentation, pressure, sand filtration and chlorination. Finished water is pumped into a two-zone distribution system which contains four water tanks. The system has serious deficiencies including an inadequate treatment plant, undersized and old water mains and inadequate storage.

Lucerne proposes to correct the deficiencies in its water distribution system by the installation of a new treatment plant, new and larger mains, a new storage tank and looping the existing main for better service hydraulics.

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 Lucerne's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated September 17, 1980, DWR informed Lucerne 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.	Treatment Plant	\$254,000
2.	300,000 Gallon Hotel Tank	138,000
3.	100,000 Gallon Riviera Tank	103,500
4.	North Tank Improvements	11,800
5.	Riviera Estates Tank Improve- ments	2,600
6.	Distribution System Additions	187,000
7.	Engineering	96,700
8.	DWR Administrative Fee, 3% of Loan	<u>23,900</u>
9.	Total Estimated Project Cost	<u><u>\$517,500</u></u>

The proposed loan from DWR will provide for a 35-year repayment schedule with equal semiannual payments of principal and interest, at an interest rate of 6-1/2 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 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 will be approximately \$65,425. 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. ✓

A tour of Lucerne's entire service area was made by the staff on December 11, 1980. The purpose of the tour was to identify the system's present deficiencies and determine how the SDWBA project improvements would correct the deficiencies. While inspecting the service area, which is predominantly residential, three large mobile home parks were identified.

Bamboo Village, with a one-inch meter service has 40 mobile home spaces; Cottage City, with a one and one-half inch meter service has 94 spaces and Lorraine Village, with a two-inch meter service has 64 spaces. To use the surcharge schedule as described in the application will produce an inequitable result. Ratepayers with comparable size meter services and the residential meter and flat rate customers would be overcharged.

An analysis was made of the outside lawn and garden area of the mobile home spaces compared with average residential lots and average consumption of mobile home dwellers and other residential customers. It is determined that each mobile home space will receive approximately 40 percent of the value of the SDWBA project improvements as compared with the average residential customer. Based upon this analysis, the following revised surcharge schedule would produce approximately \$65,425 per year, requiring an increase in water rates of approximately \$4.60 per month for each residential customer:

SURCHARGE SCHEDULE

<u>Metered Service</u>	<u>Monthly Surcharge<sup>1/</sup></u>
5/8" by 3/4" Meter	\$ 4.60
3/4" Meter	6.90
1" Meter	11.50
1½" Meter	23.00
2" Meter	36.80
3" Meter	69.00
<u>Mobile Home Parks</u>	
5/8" x 3/4" Meter	\$ 1.85 per space
3/4" Meter	1.85 per space
1" Meter	1.85 per space
1½" Meter	1.85 per space
2" Meter	1.85 per space
3" Meter	1.85 per space
<u>Flat Rate Service</u>	
3/4" Service	\$ 4.60

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

Lucerne's present rates were authorized by Commission Resolution No. W-2576, effective November 20, 1979.

The estimated annual gross revenues for 1981 at present rates will be about \$121,540. The \$65,425 yearly increase under the SDWBA loan surcharge thus would increase Lucerne's revenues by approximately 53.8 percent.

On the evening of December 11, 1980, the staff from the Commission's Revenue Requirements Division conducted a public meeting at the Lucerne Senior Citizens' Building, Lucerne, California, to explain the SDWBA loan program. The meeting was attended by 214 customers of the utility. Also participating in the meeting were representatives from DHS, DWR and James Daugherty, representing the consulting engineering firm of Brelje and Race. At the direction of the Commission, Lucerne sent a letter to all of its customers notifying them of the meeting. A notice was also published in the local newspaper.

In presenting the SDWBA loan program to the large audience, each person was first given an outline of the panel's presentation. After introductions, the DHS representative conducted the technical portion of the meeting by explaining Lucerne's present major water quality problem areas and the plant improvements needed to correct these deficiencies. He also outlined the regular DHS inspection and testing requirements conducted by their field staff and Lucerne. He summarized the deficiencies identified in the DHS Engineering Report dated March 1980. Specifically, he enumerated that the Lucerne water treatment plant is incapable of supplying water which is continuously free of turbidity. He also stated that the finished water seasonally contains tastes and colors which result in unpotable water for many customers. The Lucerne distribution system has many undersized and old water mains. Storage volumes in some tanks and reservoirs are inadequate.

Daugherty then described the proposed new water treatment works which will eliminate the severe water quality problems that were identified by the DHS representative. He went on to outline through use of a map of the service area the proposed improvements to the water distribution system including a new water tank, new mains and looping existing water lines. He also gave the estimated costs of each major phase of the improvement program.

The customers were provided an opportunity to question the DHS representative and the utility's consulting engineer. The customers agreed there is a basic need to improve the water quality but asked for guarantees for year-round potable water free of turbidity. Daugherty and the DHS representative said no absolute guarantees are possible but as professional engineers they assured the customers that the proposed plant improvements would produce good quality water. The question of whether the present water is dangerous or unsafe to drink was asked several times. The DHS representative assured the audience that there has never been a health problem with Lucerne's water. However, on occasion, the odor and taste of the water make it undrinkable.

The remaining portion of the meeting was devoted to explaining the SDWBA financing program and the costs to the rate-payers. The DWR representative gave a brief history of the program and described in detail how Lucerne qualified for the loan and the loan administration procedures. The staff accountant presented the proposed SDWBA surcharge and described the special accounting and ratemaking procedures.

Another question and answer period followed to provide additional customer participation. Many of the customers spoke out in opposition to Lucerne's ability to provide good quality water even with the SDWBA loan improvements. There had been an unsuccessful election several years ago to form a water district. In reply to any further changes in the ownership and management of the water company, the DWR representative stated that the SDWBA loan could at some future date be assumed by a qualified new organization. He stressed that the water quality problems will not be solved by a change in the water company's management without making the improvements recommended by the DES. From the DWR loan analysis, an SDWBA loan offers the only present source of affordable money. To wait for a possible change in management would only result in higher construction costs.

In summary, the question was asked who makes the decision on approving the borrowing under the SDWBA program and the increase in rates to repay the loan. The staff accountant replied that the Commission is the decision-maker and will take the entire problem into consideration. The need for water which meets DES standards is the primary objective along with the engineering and financial aspects of the SDWBA improvement project.

At the conclusion of the meeting, the customers were asked for their sentiments. By a show of hands, they overwhelmingly expressed their opinion that better quality water is needed. When asked whether they favored the SDWBA project, loan and accompanying surcharge, about 50 percent were in favor and the other 50 percent opposed.

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 Lucerne to enter into the proposed loan contract with DWR and to institute a 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 <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.



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 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.

Lucerne 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.

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

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 January 1983, it is necessary for Lucerne to place the surcharge in effect beginning December 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 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 \$817,500 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 \$65,425 per year. Approximately \$59,477 will be used to meet the loan payments. The remaining \$5,948, 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 Lucerne's annual gross revenues by approximately \$65,425 and increase the water rates by approximately \$4.60 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 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. Lucerne 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 December 1, 1981, so as to accumulate funds to make the initial interest payment due in January 1983.

Conclusions of Law

1. The application should be granted to the extent set forth in the following order, and the ensuing rates are just and reasonable.
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, Lucerne 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 December 1, 1981.
2. Lucerne Water Company is authorized to borrow \$817,500 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Lucerne 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 Lucerne Water Company.

4. As a condition of the rate increase granted herein, Lucerne 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.

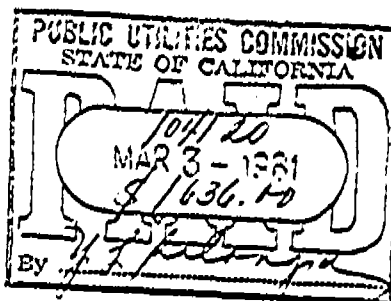
5. Plant financed through the SDWBA loan shall be permanently excluded from rate base for ratemaking purposes.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Lucerne Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,636. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated FEB 18 1981, at San Francisco, California.

John E. Boyan President  
Richard J. Powell  
Thomas M. Dennis

Commissioners



APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Lucerne and vicinity, Lake County.

RATES

	Per Meter Per Month	Nonpermanent Temporary Surcharge
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Quantity Rates:

First 400 cu.ft., per 100 cu.ft. ...	\$0.61 (I)	\$0.06
Over 400 cu.ft., per 100 cu.ft. ...	.71 (I)	.06

Permanent Resident Monthly Service Charge	Nonpermanent Resident Monthly Service Charge	SDWBA* Monthly Surcharge
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Service Charge:

For 5/8 X 3/4-inch meter .....	\$ 4.70	\$ 5.85	\$ 4.60	(N)
For 3/4-inch meter .....	5.15	6.45	6.90	
For 1-inch meter .....	7.05	8.80	11.50	
For 1-1/2-inch meter .....	9.40	11.75	23.00	
For 2-inch meter .....	12.70	15.85	36.80	
For 3-inch meter .....	23.50	29.40	69.00	

Mobile Home Parks:

For 5/8 X 3/4-inch meter .....	\$ 4.70	\$ 5.85	1.85 per space	
For 3/4-inch meter .....	5.15	6.45	1.85 per space	
For 1-inch meter .....	7.05	8.80	1.85 per space	
For 1-1/2-inch meter .....	9.40	11.75	1.85 per space	
For 2-inch meter .....	12.70	15.85	1.85 per space	
For 3-inch meter .....	23.50	29.40	1.85 per space	(N)

The service charge is applicable to all 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.

\*SDWBA 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. 92711.

(a) Insert Decision Number in Application No. 60101 before filing tariff.

\*SDWBA - Safe Drinking Water Bond Act.

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

(Continued)

SPECIAL CONDITIONS

1. A permanent resident of Lucerne is one who maintains a primary residence and that residence receives water service from the Lucerne Water Company, and who regularly receives mail, including bills from IWC, through the U.S. Post Office located at Lucerne, Nice or Lakeport. A business would be considered a primary residence.

2. Revenues collected from the temporary surcharge are to be specifically used for the annual payments, as ordered by the California Superior Court Judgment and Decree No. 8704, to the Yolo County Flood Control and Water Conservation District for water pumped from Clear Lake from October 1, 1958 to and including June 30, 1977. The collected revenues are to be kept in a special account that will be specifically used to make the annual payments to Yolo County FCWCD. The utility will notify the Commission 90 days before the final payment is made. Upon notification and the final payment, the temporary surcharge will be cancelled.

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Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Lucerne and vicinity, Lake County.

RATE

	Per Service Connection			(N)
	Per Year			
	<u>Charge</u>	<u>Temporary Surcharge</u>	<u>SDWBA* Surcharge</u>	(N)
For a single-family residential unit, including premises .....	\$86.00	\$4.00	\$55.20	

SPECIAL CONDITIONS

1. The above flat rate applies to service connection not larger than 3/4 inch in diameter.
2. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated flat rate payment shall be made on or before that day.
3. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established periods.

\*SDWBA - Safe Drinking Water Bond Act.



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Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

(Continued)

SPECIAL CONDITIONS (Continued)

4. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge 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. The balance of the payment of the initial annual charge 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 shall be due the customer.

5. Revenues collected from the temporary surcharge are to be specifically used for the annual payments, as ordered by the California Superior Court Judgment and Decree No. 8704, to the Yolo County Flood Control and Water Conservation District for water pumped from Clear Lake from October 1, 1958 to and including June 30, 1977. The collected revenues are to be kept in a special account that will be specifically used to make the annual payments to Yolo County FCWCD. The utility will notify the Commission 90 days before the final payment is made. Upon notification and the final payment, the temporary surcharge will be cancelled.

SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$55.20 per 3/4-inch service connection, per year. The total yearly 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 No. 92711.

(N)

(N)

- (a) Insert Decision Number in Application No. 60101 before filing tariff.