

ORIGINAL

Decision No. 92873 APR 7 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of )  
ARDEN WATER COMPANY, a California )  
Corporation, to borrow additional )  
funds under the Safe Drinking Water )  
Bond Act, and to add a surcharge to )  
water rates to repay the principal )  
and interest on such additional loan. )

Application No. 60176  
(Filed January 7, 1981)

O P I N I O N

By Decision No. 90267, dated May 8, 1979, in Application No. 58690, as amended, the California Public Utilities Commission (Commission) authorized Arden Water Company, Inc., (Arden) to borrow \$370,800 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 consisting primarily of the replacement of substandard water mains, installation of water treatment equipment and reconstruction of wells and related plant items at the Lake Properties area of the utility. The terms of this loan provided for a 30-year repayment schedule with equal semi-annual payments of principal and interest, at an interest rate of 5-1/2 percent per annum.

The Commission also authorized Arden 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 customer consumption of approximately 700 cubic feet of water per month, a rate surcharge of \$0.32 per 100 cubic feet of water used provided revenue of approximately \$25,515 per year, equal to the amount of the annual

requirements for debt service. It was estimated that the rate surcharge would produce approximately \$2,125 per month, with an increase in water rates of approximately \$2.28 for an average residential customer. Arden placed the rate surcharge into effect on September 1, 1979.

Presently, Arden has approximately 895 metered connections in its water system. The utility's service area is located in the unincorporated community of Wofford Heights and vicinity, near Lake Isabella, approximately two miles south of Kernville, Kern County, California.

Arden is nearing completion of construction of the SDWBA water system improvements; however, the utility has noted that the cost of the plant reconstruction program has exceeded (by nearly eight percent), the total estimated project cost of \$370,800 authorized by Commission Decision No. 90267.

By this application, Arden requests authority to borrow an additional \$28,900 at 5-1/2 percent per annum from DWR under the SDWBA, thereby increasing the authorized loan amount from \$370,800 to \$399,700; and to add a surcharge to water rates to repay the principal and interest on such additional loan. Under the terms of the amended loan contract with DWR, the repayment period and interest rate will not change because of Arden's request.

Notice of the filing of Application No. 60176 appeared on the Commission's Daily Calendar of January 12, 1981.

By Commission Decision No. 90267, the SDWBA rate surcharge that was authorized was calculated based on 820 metered residential and commercial customers. Since that time, the number of such customers has increased by approximately nine percent and currently stands at 895. Also, Arden's average residential customers are presently consuming more water than when Commission Decision No. 90267 became effective. Therefore, because of the above factors,

if the Commission grants Arden authority to borrow the additional SDWBA loan funds of \$28,900, there will be no increase in the rate surcharge of \$0.32 per 100 cubic feet of water used, as authorized by Commission Decision No. 90267.

The requested additional SDWBA loan funds of \$28,900 would be spent as follows:

1. \$20,000 required to complete the installation of 3,812 feet of new water mains;
2. \$8,000 to complete the reconstruction of two wells in the Lake Properties area;
3. Approximately \$900 to fund additional DWR administrative fees.

By letter dated November 19, 1980, DWR informed Arden of its eligibility for the additional loan of \$28,900 under the SDWBA. The current surcharge of \$0.32 per hundred cubic feet of water used would provide sufficient revenue of approximately \$27,356 per annum for yearly amortization of principal and interest on the amended SDWBA loan. Water rates of commercial customers having larger water usage would be increased proportionately. Such a rate surcharge would produce approximately \$2,280 per month.

Since the financing of the additional SDWBA loan improvements of \$28,900 does not require an increase in the present rate surcharge, it was not necessary to conduct another public meeting with Arden's customers.

The Commission staff reviewed the application and concludes that the proposed additional plant improvements will substantially improve service. The proposed SDWBA loan is the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Arden to enter into the proposed amended loan contract with DWR and to maintain the current rate surcharge on customers' bills to repay 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 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.

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.

Arden 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.

---

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

It is appropriate to emphasize that the 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 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 costs an estimated \$399,700 including the additional \$28,900 requested by Arden in this application.
3. The proposed borrowing is for proper purposes and the money, property or labor 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 would generate approximately \$27,356 per year to meet the loan payments.
5. 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.
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. Arden should maintain a balancing account to be credited with revenue collected through the 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 rate surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

8. Since the additional SDWBA loan funds would not result in an increase in the customers' rate surcharge, Arden would be exempt from filing revised rate schedules, as required by the Commission's General Order No. 96-A.

9. The rates and charges authorized by this decision are justified and are reasonable.

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 and the authorized rates are just and reasonable.

O R D E R

IT IS ORDERED that:

1. Arden 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 Arden Water Company, Inc.

2. As a condition of the surcharge granted herein, Arden 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.

3. 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 quantity of water used and the amount of the rate surcharge are continued in effect, as granted by Commission Decision No. 90267. Furthermore, the authority granted by this order to issue an evidence of indebtedness and to execute an amended loan contract will become effective when Arden Water Company, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$58. In all other respects, the effective date of this order is the date hereof.

Dated APR 7 1981, at San Francisco, California.

*John E. Burton*  
\_\_\_\_\_  
President

*Richard D. [unclear]*  
\_\_\_\_\_

*[unclear]*  
\_\_\_\_\_

*Priscilla C. [unclear]*  
\_\_\_\_\_  
Commissioners

