

Decision No. 92932 APR 21 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
Arthur & Marion Sorsoli dba Sorsoli)
Water Company, 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.)

Application No. 59903
(Filed August 27, 1980;
amended January 26, 1981)

O P I N I O N

Arthur and Marion Sorsoli, dba Sorsoli Water Company, (Sorsoli) request authority to borrow \$103,600 for 35 years, at an interest rate of 6-1/2 percent per annum, 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. 59903 and the amendment to the application appeared on the Commission's Daily Calendars of September 2, 1980 and January 30, 1981, respectively.

The utility provides water to approximately 78 residential and commercial customers in the unincorporated community of Crescent Mills, with a population of about 300 people. The community is located approximately 20 miles northwest of Quincy, Plumas County.

Sorsoli's present water supply is obtained from an abandoned mining tunnel supplemented by mountain springs. The water is conveyed to two storage reservoirs through a wooden flume and steel pipe. To help prevent contamination, the present water system has chlorination treatment facilities. The water is then piped by gravity flow into Sorsoli's distribution system.

Sorsoli has serious deficiencies within its water system, including inadequate water treatment and storage capacity facilities, insufficient sources of water and excessive iron and manganese concentrations.

Sorsoli proposes to correct the deficiencies in its water distribution system by constructing a filtration plant, related facilities and booster pumps; investigating and developing an additional water source to use as an auxiliary supply; and lining and covering storage reservoirs. In addition, the utility proposes 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 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 this 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 Sorsoli's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letters dated June 2, 1980 and January 9, 1981, DWR informed Sorsoli 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. Construction of a pressure filter system comprising filter tanks, backwash tanks, valving, piping, pump, chlorination and chemical feed equipment and a small control building.	\$35,500
2. Lining and covering storage reservoirs.	25,000

	<u>Description of Item</u>	<u>Estimated Cost</u>
3.	Investigating the feasibility and construction of an additional water source to use as an auxiliary supply.	\$ 12,600
4.	Installation of meters for remaining flat rate services.	10,650
5.	Engineering and other contingency costs.	<u>16,850</u>
	Subtotal	\$100,600
6.	DWR administrative fee, 3% of loan	<u>3,000</u>
	Total estimated project cost	<u>\$103,600</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 \$8,328. 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 \$694 per month, requiring an increase in water rates of approximately \$4.85 per month for each residential customer.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge (2)</u>
Residential (1)	\$ 4.85
3/4 Inch	7.30
1 Inch	12.15
1-1/2 Inch	24.25
2 Inch	38.80
3 Inch	72.75
4 Inch	121.25

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

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

Sorsoli's present rates were authorized by Commission Resolution No. W-2005, effective November 1, 1976.

The estimated annual gross revenues for 1981, at present rates will be about \$5,000. The \$8,328 yearly increase under the SDWBA loan surcharge thus would increase Sorsoli's revenues by approximately 167 percent.

On September 17, 1980, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Indian Valley Pre-School, Crescent Mills, California, to explain the SDWBA program. At the direction of the Commission, Sorsoli sent a letter to all customers notifying them of the meeting. Approximately 20 customers attended the meeting. Also participating in the meeting were representatives from DWR, DHS, Plumas County Health Department and Sorsoli.

After a general introduction which included an explanation of all the basic aspects of the loan proposal, the floor was opened for questions. Most of the questions were of a routine nature concerning the SDWBA program, and the panel members answered these questions to the customers' satisfaction. The Sorsoli customers who attended the meeting were practically unanimous in their support for the proposed water system improvements. However, some of the customers in attendance expressed concern that the proposed improvements did not include an additional source of water

supply. The Sorsoli customers expressed favorable sentiment towards having the utility provide for an additional well, even if it entailed borrowing by Sorsoli of more SDWBA funds from DWR, with a concomitant addition to the proposed rate surcharge not exceeding a \$1.00 per month, per residential customer.

The DHS, DWR and staff accountant representatives decided that Sorsoli should apply for additional SDWBA funds of approximately \$12,600 from DWR, bringing the requested total loan to \$103,600. The increased funds would be used to investigate and develop an additional water source within the utility's water system. The DHS and DWR have determined the need and approved the increase in the amount of Sorsoli's SDWBA loan from \$90,700 to \$103,600.

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 DHS standards is the primary objective along with the engineering and financial aspects of the SDWBA improvement project.

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 Sorsoli to enter into the proposed loan contract with DWR and to institute a 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,^{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 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.

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

Sorsoli 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 principal and interest 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 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.

In order for the surcharge to produce enough revenue to meet the initial payment of principal and interest on the SDWBA loan due in January 1983, it is necessary for Sorsoli to place the surcharge in effect beginning May 1, 1982. 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 percent 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 \$103,600 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 \$8,328 per year. Approximately \$7,538 will be used to meet the loan payments. The remaining \$790, 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 Sorsoli's annual gross revenues by approximately \$8,328 and increase the water rates by approximately \$4.85 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. Sorsoli should 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 should 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 May 1, 1982 so as to accumulate funds to make the initial principal and interest payment due in January 1983.

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

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

Conclusion of Law

The application, as amended, should be granted to the extent set forth in the following order, and the ensuing rates are just and reasonable.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Arthur and Marion Sorsoli are 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 May 1, 1982.

2. Arthur and Marion Sorsoli are authorized to borrow \$103,600 from the State of California, to execute the proposed amended loan contract, and to use the proceeds for the purposes specified in the application, as amended.

3. Arthur and Marion Sorsoli 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 Arthur and Marion Sorsoli.

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

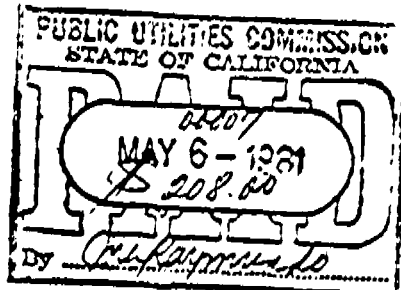
5. Plant financed through the SDWBA loan shall be permanently excluded from rate base for ratemaking purposes.

The authority granted by this order to issue an evidence of indebtedness and to execute an amended loan contract will become effective when Arthur and Marion Sorsoli have paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$208. In all other respects, the effective date of this order shall be five days after the date hereof.

APR 21 1981

Dated _____, at San Francisco, California.

John E. Bryan President
Richard P. ...
...
...
... Commissioners



APPENDIX A
Sheet 1 of 3
Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all domestic, commercial and industrial metered water service.

TERRITORY

In and in the vicinity of the Town of Crescent Mills, Plumas County.

RATES

<u>Minimum Monthly Charges:</u>	<u>Per Meter Per Month [N]</u>	
	<u>Charge :</u>	<u>Surcharge</u>
For 5/8 x 3/4 inch meters	\$ 1.50	\$ 4.85
For 3/4 inch meters	3.00	7.30
For 1 inch meters	4.50	12.15
For 1-1/2 inch meters	9.00	24.25
For 2 inch meters	11.25	38.80
For 3 inch meters	18.00	72.75
For 4 inch meters	28.00	121.25 [N]

The Minimum Monthly Charges will entitle the consumer to the quantity of water which that minimum monthly charge will purchase at the following Monthly Quantity Rates:

Monthly Quantity Rates:

First 500 cubic feet, or less	\$1.50
Next 1,000 cubic feet, per 100 cubic feet30 [I]
Next 1,500 cubic feet, per 100 cubic feet23 [I]
Over 3,000 cubic feet, per 100 cubic feet18 [I]

A meter may be installed on any service at the option of either the consumer or the utility.

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 as authorized by Decision No. [a].

[a] Insert Decision Number in Application No. 59903 before filing tariff.

RESIDENTIAL FLAT RATE SERVICE (N)

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

In and in the vicinity of the Town of Crescent Mills,
 Plumas County.

RATES

	Per Service Connection [N] Per Month		
	Charge	: Surcharge	
For a single-family residential unit, flat or apartment, including an irrigated area of not over 500 square feet	\$3.00	\$4.85	
a. For each additional single-family residential unit on the same premises and served from the same service connection	2.00	3.20	
b. For each 100 sq. ft. of irrigated premises, 500 to 5,500 sq. ft., during months of irrigation	0.08	0.12	
c. Over 5,500 sq. ft., per 100 sq. ft.	0.04	0.06	[N]

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. If the utility elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$3.00 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 as authorized by Decision No. [a].

[a] Insert Decision Number in Application No. 59903 before filing tariff.

[N]
|
[N]

APPENDIX A
Sheet 3 of 3
Schedule No. 2L

LIMITED FLAT RATE SERVICE (N)

APPLICABILITY

Applicable to non-residential customers presently receiving flat rate service.

TERRITORY

In and in the the vicinity of the Town of Crescent Mills, Plumas County.

RATES

	Per Service Connection [N] Per Month	
	Charge	: Surcharge
Crescent Hotel	\$21.00	\$34.00
Sacramento Valley Moulding Company ..	40.00	65.00
Louisiana-Pacific Corporation	40.00	65.00
Restaurants, lunch counters, cafes, drugstores, soft drink parlors, bars or saloons	4.50	7.30
Retail stores, shops, banks or other business establishments	2.50	4.00
Churches or other public buildings ..	2.25	3.65
Garages and service stations	7.50	12.10 [N]

SPECIAL CONDITIONS

1. The above flat rates apply only to non-residential customers currently receiving flat rate service.
2. If the utility so elects, a meter shall be installed and service thereafter will be provided under Schedule No. 1, General Metered Service.

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular [N] charge for limited flat rate service, 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 as authorized by Decision No. [a].

[a] Insert Decision Number in Application No. 59903 before filing tariff. [N]