

Decision 93048 MAY 19 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of )  
Crystal Falls 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. }

ORIGINAL

Application 60151  
(Filed December 22, 1980)

O P I N I O N

Crystal Falls Water Company, Inc., (Crystal Falls) requests authority to borrow \$726,000 for 35 years, at an interest rate of 6-1/2% 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 the application appeared on the Commission's Daily Calendar of December 30, 1980.

The utility provides water to an unincorporated area including the Crystal Falls (Falls) and Willow Springs (Springs) Systems or Subdivisions, with approximately 642 and 266 customers, respectively. Also, Crystal Falls sells water to the Sonora Meadows Mutual Water Company (Sonora Meadows) and the Mono Vista Water Company (Mono Vista) a mutual water company, which have approximately 250 and 40

service connections, respectively. Presently, the Falls and Springs Systems are noncontiguous. The population in the Crystal Falls service area is about 2,500, and the utility is located approximately eight miles east of the City of Sonora, Tuolumne County. The service connections consist of 220 flat rate and 688 metered services.

The Falls and Springs Systems' present water supplies are obtained from the Main Canal (Ditch) and the Soulsbyville Ditch, respectively, of the Pacific Gas and Electric Company's (PGandE) Tuolumne County ditch systems. The present Falls and Springs Systems have chlorination and filtration treatment facilities.

Currently, Crystal Falls has serious deficiencies within its two water systems, including inadequate water treatment and storage capacity facilities, and insufficient sources of water supply.

Crystal Falls proposes to correct the deficiencies in its water distribution systems by constructing additional wells and storage reservoirs, installing new water treatment facilities, and installing pumps and valves. In addition, the utility proposes to install approximately 2,600 feet of a six-inch main to interconnect its Falls and Springs Systems and 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 Public Utilities (PU) Code Sections 816 through 851, public utility water companies must obtain authorization from the Commission to enter into any long-term loan. PU Code Section 454 requires a public utility water company to obtain Commission approval for rate increases.

The DHS has reviewed Crystal Falls' loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated October 2, 1980, DWR informed Crystal Falls 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. Four Wells Complete with Housing	\$ 68,000
2. Pretreatment and Treatment Plant Facilities Including Chlorine Reliability Equipment	103,200
3. Subsurface 600,000-Gallon Lined Storage Tank	105,000
4. 250,000-Gallon Storage Tank	90,000
5. 200,000-Gallon Storage Tank	85,000
6. 100,000-Gallon Storage Tank	40,000
7. 60,000-Gallon Storage Tank	25,000
8. Approximately 2,600 Feet of 6" Main Interconnecting the Falls and Springs Systems	53,000
9. Transmission and Distribution Pumps and Motors	17,000
10. Metering the Remaining Flat Rate Services	27,600
11. Engineering and Other Contingency Costs	91,000
12. DWR Administrative Fee, 3% of Loan	<u>21,200</u>
13. Total Estimated Project Cost	<u><u>\$726,000</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% 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%. 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 \$58,918. 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 except for the amount of the surcharge to be paid by the two mutual water companies, Sonora Meadows and Mono Vista. An analysis was made

to determine an equitable method for use in apportioning the SDWBA rate surcharge for these two resale customers of Crystal Falls, who in turn supply water to their own customers. The staff of the Commission's Revenue Requirements Division determined that the customers of Sonora Meadows and Mono Vista will receive approximately 69% of the total value of the SDWBA proposed water system improvements. Using total customers of Sonora Meadows, and Mono Vista as an allocation factor, it was further determined that the equitable amount of the rate surcharge for Sonora Meadows and Mono Vista would be flat rates of \$695 and \$111 per month, respectively. Based upon this analysis, the following revised surcharge schedule would produce approximately \$4,910 per month, requiring an increase in water rates of approximately \$3.25 per month for each residential customer:

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge</u> (2)
Residential(1)	\$ 3.25
3/4" Meter	4.90
1" Meter	8.15
1-1/2" Meter	16.25
2" Meter	26.00
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Sonora Meadows Mutual Water Company	\$695.00 Per Month, Flat Rate
Mono Vista Water Company	\$111.00 Per Month, Flat Rate

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

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

Crystal Falls' present rates were authorized by Commission Resolution W-2812, effective April 7, 1981.

The estimated annual gross revenues for 1981 at present rates will be approximately \$115,000. The \$58,918 yearly increase under the SDWBA loan surcharge thus would increase Crystal Falls' revenues by approximately 51%.

On the evening of January 22, 1981, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Arts and Flowers Building located at the Mother Lode

Fairgrounds, Sonora, California. The meeting was attended by approximately 35 customers of the utility. Also participating were representatives from DHS, DWR, and Crystal Falls. At the direction of the Commission, Crystal Falls sent a letter to all customers notifying them of the meeting. A notice was also published in the local newspaper.

After a general introduction which included an explanation of all basic aspects of the SDWBA loan proposal, the floor was opened for questions. One customer inquired about the necessity for the additional storage tanks. She was informed that additional treated water storage is needed for both the Falls and Springs Systems to prevent frequent water outages and low pressure, particularly when the two PGandE Ditches are shut down for routine maintenance and repair work. Another customer asked what happens to the rate surcharge when homes are constructed on vacant lots. The staff accountant replied that as additional customers are connected to Crystal Falls' water system, the utility will make periodic adjustments to the SDWBA rate surcharge, to reflect these changes in the number of connections.

One customer mentioned that he lived in the area for 32 years, and that he did not know of anyone who became ill from drinking the water in its present condition. The DHS representative stated that Crystal Falls' present water supply has high bacteria and



turbidity readings, and if he could see particles floating in the water, he would not drink it. Some customers wanted to know what benefits would be derived from interconnecting the utility's Falls and Springs System. They were informed that the installation of the interconnection would result in the elimination of the Springs treatment plant, thereby reducing the utility's operating costs. Also, the Falls Main Ditch is a more satisfactory source of raw water than the Soulsbyville Ditch, because the Main Ditch has lower turbidity and coliform bacteria readings. Finally, with only one treatment plant in operation, Crystal Falls would establish a more adequate program of flushing mains, fire hydrant maintenance, etc., and that customers in both service areas would receive good, clean, healthful water in much less time.

A number of customer questions revolved around Crystal Falls' furnishing water to the two mutual water companies, Sonora Meadows and Mono Vista, and the amount of the SDWBA rate surcharge that they would pay. These customers were informed that the Commission has no regulatory authority over mutual water companies per se, and that these two companies are considered only as resale customers of Crystal Falls. Although it was not brought out at the public meeting, the staff of the Commission's Revenue Requirements Division later determined that fairness and reasonableness dictate that the two mutual water

companies share in the SDWBA rate surcharge based on the benefits derived from the proposed water system improvements, rather than on the capacity of each resale customer's meter. Some customers questioned the necessity for metering the utility's remaining flat rate services. The DWR representative stated that the installation of meters is a DWR policy which in turn will assist in water conservation efforts and reasonably assure that all customers of Crystal Falls pay their fair share for water used.

Several customers asked questions concerning the decision-making process in approving the borrowing under the SDWBA program and increasing rates to repay the loan. The staff accountant replied that the Commission is the decision-maker. The Commission will take all of the factors of the program into consideration in reaching its decision. The need for water which meets DHS standards is the primary objective along with the engineering and financial aspects of the SDWBA improvement project.

At the conclusion of the public meeting Crystal Falls' customers were asked for their sentiments. By a show of hands they overwhelmingly agreed that better quality water is needed within the utility's system. When asked whether they favored the SDWBA project, loan, and accompanying rate surcharge, the customers overwhelmingly approved.

The staff of the Commission's Revenue Requirements Division 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 Crystal Falls 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 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.

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<sup>1/</sup> Decision 88973, dated June 13, 1978 (mimeo).

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.

Crystal Falls 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 Crystal Falls to place the surcharge in effect beginning November 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 \$726,000 including a 3% 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 \$58,918 per year. Approximately \$52,820 will be used to meet the loan payments. The remaining \$6,098, which is approximately 10% 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 Crystal Falls' annual gross revenues by approximately \$58,918 and increase the water rates by approximately \$3.25 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. Crystal Falls should be required to negotiate new resale contracts with Sonora Meadows and Mono Vista to cover the amount of the proposed SDWBA rate surcharge that these two mutual water companies would have to pay.

10. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Crystal Falls 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.

11. 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.

12. This surcharge should be placed in effect beginning November 1, 1981, so as to accumulate funds to make the initial principal and interest payment due in January 1983.

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

14. 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 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, Crystal Falls 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 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 November 1, 1981.

2. Crystal Falls Water Company, Inc., is authorized to borrow \$726,000 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Crystal Falls 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 Crystal Falls Water Company, Inc.



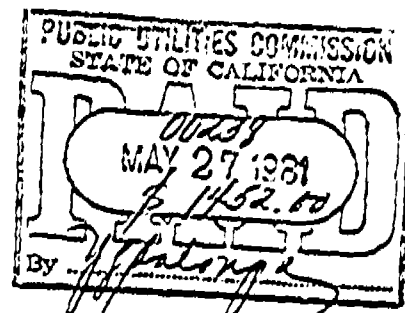
4. As a condition of the rate increase granted herein, Crystal Falls Water Company, Inc., shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.

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 Crystal Falls Water Company, Inc., has paid the fee prescribed by PU Code Section 1904(b), which fee is \$1,452. In all other respects, the effective date of this order shall be 30 days after the date hereof.

Dated MAY 19 1981, at San Francisco, California.

Joe E. Bryan  
President  
Richard D. Stubble  
Thomas M. James  
Victor Colvin  
Prudence C. Hewitt  
Commissioners



APPENDIX A  
 Page 1  
 Schedule 1A

ANNUAL METERED SERVICE

APPLICIABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Willow Springs, Crystal Falls Ranch and vicinity, located approximately two miles southwest of Twain Harte, Tuolumne County.

RATES

	<u>Per Meter Per Year Charge</u>	<u>Per Meter Per Month(N) Surcharge</u>	
Annual Service Charge:			
For 5/8 x 3/4-inch meter.....	\$ 84.00	\$ 3.25	
For 3/4-inch meter.....	93.00	4.90	
For 1-inch meter.....	126.00	8.15	
For 1-1/2-inch meter.....	168.00	16.25	
For 2-inch meter.....	228.00	26.00	(N)
	<u>Per Meter Per Month</u>		

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.. \$ 0.48  
 Over 300 cu.ft., per 100 cu.ft... .54

The Service Charge applies to all metered service connections. To it is added the charge for water used during the month at Quantity Rates.

APPENDIX A  
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Schedule 1A

ANNUAL METERED SERVICE

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 (a). (N)

(a) - Insert Decision Number in Application 60151 before filing tariff. (N)

SPECIAL CONDITIONS

1. The annual service 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 service charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly, or quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service 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 year. 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.

APPENDIX A  
 Page 3  
 Schedule No. 2 RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Willow Springs, Crystal Falls Ranch and vicinity, located approximately two miles southwest of Twain Harte, Tuolumne County.

RATES

	Per Service Connection Per Year Charge	Per Service(N) Connection Per Month Surcharge
For a single-family residential unit, including premises.....	\$131.40	\$3.25
For each additional single-family residential unit on the same premises and served from the same service connection.....	103.80	2.60 (N)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.

2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule 1A, Annual 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 difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

APPENDIX A  
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Schedule No. 2 RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$131.40 per inch or less service connection, per year. 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 (a).

(N)

- (a) Insert Decision number in Application 60151 before filing tariff.

(N)

SPECIAL CONDITIONS (Continued)

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 billing periods.

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 year. 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.

(End of Appendix A)