

ORIGINAL

Decision 93049 MAY 19 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CEDAR RIDGE 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.)

Application 60152
(Filed December 22, 1980)

O P I N I O N

Cedar Ridge Water Company, Inc., (Cedar Ridge) requests authority to borrow \$560,200 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 Upper and Lower Cedar Ridge with approximately 380 customers. Upper and Lower Cedar Ridge are contiguous and comprise the Cedar Ridge water system. The population in the Cedar Ridge service area is approximately 700, and the utility is located approximately 12 miles northeast of the City of Sonora, Tuolumne County. The service connections consist of 240 flat rate and 140 metered services.

Cedar Ridge's present water supply is obtained from two sources; the primary source of supply is derived from the Main Ditch (Ditch) of the Pacific Gas and Electric Company (PGandE) Tuolumne

County ditch systems, while the other source is derived from three springs known as the Keyser Springs (Springs), located on U.S. Forest Service property adjacent to the utility's service area. Presently, only the utility's ditch water supply has chlorination and filtration treatment facilities.

Cedar Ridge has serious deficiencies within its system including inadequate water treatment and storage capacity facilities, and frequent low water pressure and leakage because of rusted, undersized, distribution mains. As presently equipped, Cedar Ridge's water system is not able to meet the primary water quality standard for turbidity, and does not have the disinfection reliability equipment needed to assure the proper treatment of all water delivered to its customers. Also, the water has high concentrations of iron, manganese, and other undesirable minerals.

Cedar Ridge proposes to correct the deficiencies in its water distribution system by constructing new water treatment facilities, installing additional water storage tanks, and replacing approximately 17,000 feet of deteriorating distribution mains. 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 Public Utilities (PU) Code Sections 816 through 851, public utility water companies must obtain authorization from this 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 Cedar Ridge's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated September 12, 1980, DWR informed Cedar Ridge 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 Facilities Including Chlorine Reliability Equipment - Springs Source	\$ 21,500
2. 60,000 Gallon Storage Tank	25,000
3. Approximately 17,000 Feet of 6" Mains	265,000
4. Fifteen Fire Hydrants	20,000
5. Flow Meters	2,000
6. Treatment Plant Facilities Including Chlorine Reliability Equipment - Ditch Source	61,300
7. 125,000 Gallon Storage Tank	50,000
8. Metering the Remaining Flat Rate Services	28,000
9. Engineering and Contingency Costs	71,000
10. DWR Administrative Fee, 3% of Loan	<u>16,400</u>
11. Total Estimated Project Cost	<u>\$560,200</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 \$44,987. 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 \$3,749 per month, requiring an increase in water rates of approximately \$9.75 per month for each residential customer.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge(2)</u>
Residential (1)	\$ 9.75
3/4" Meter	14.65
1" Meter	24.40
1-1/2" Meter	48.75
2" Meter	78.00

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

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

Cedar Ridge's present rates were authorized by Commission Resolution No. W-2813, effective April 7, 1981.

The estimated annual gross revenues for 1981 at present rates will be approximately \$28,400. The \$44,987 yearly increase under the SDWBA loan surcharge thus would increase Cedar Ridge's revenues by approximately 158%.

On the evening of January 21, 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 55 customers of the utility. Also participating were representatives from DHS, DWR and Cedar Ridge. At the direction of the Commission, Cedar Ridge 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. Some of the more important questions that the customers asked concerned the following matters:

- a. Why the necessity for metering the utility's remaining flat rate customers?
- b. What safeguards are built into the SDWBA loan project if Cedar Ridge's owner wants to do his own construction work on the plant reconstruction program, rather than contracting out such work by competitive bids?
- c. Will the owner of Cedar Ridge realize a windfall gain or profit, if the utility is sold after the SDWBA water systems improvements have been completed?
- d. What transactions are entered in the balancing account that is established if the SDWBA loan is authorized by the Commission, and what happens to the rate surcharge as new customers come on line after the surcharge is instituted?
- e. Would the utility be able to provide adequate, safe water, even with the SDWBA water system improvements?

Overall, the various panel members answered the above questions to the satisfaction of the customers. The two most controversial issues generated by customers' questions and complaints concerned the necessity for and benefits to be derived by installing new distribution mains within Cedar Ridge's water system, and the possibility of the utility's allocating the SDWBA rate surcharge to vacant-lot owners or inactive connections.

Some customers, living in the Upper Cedar Ridge area of the utility, had as their primary spokesperson a representative of the Cedar Ridge Ranch Property Owners Association. He was concerned about the benefits to the Upper Cedar Ridge customers from the proposed installation of approximately 17,000 feet of new six-inch distribution mains. He admitted that he was not against the SDWBA water system improvements being made, but he was questioning the financing allocation method involved. The various panel members responded that the installation of new mains would benefit both Upper and Lower Cedar Ridge customers as follows:

1. Under the present system, treated water flows downhill only from Upper Cedar Ridge for use in Lower Cedar Ridge; however, with the new mains installed, treated water also could be pumped uphill from Lower Cedar Ridge to Upper Cedar Ridge for usage.
2. In case of a major fire in Lower Cedar Ridge, the newer mains should provide adequate fire flow protection and water pressure to help prevent such a catastrophe from spreading to Upper Cedar Ridge.

3. When the ditch has to be shut down periodically for routine maintenance and repair, the availability of additional treated water from Lower Cedar Ridge would be adequate to prevent water outages and alleviate low pressure that frequently occur in Upper Cedar Ridge.
4. The approximate 17,000 feet of older pipe are in urgent need of replacement because continued use of these mains is resulting in excessive water loss due to pipeline failure and leaks. As a corollary, the utility's SDWBA system improvements include the installation of water treatment facilities at both the Upper and Lower Cedar Ridge water supply sites. Therefore, if the older, deteriorated mains are not replaced, the intent of Cedar Ridge's SDWBA loan proposal would be greatly thwarted, if treated water is recontaminated as it flows through such mains.
5. After the SDWBA system improvements are made, the raw water derived from the Springs or Lower Cedar Ridge would cost less than raw water derived from the ditch or Upper Cedar Ridge. The installation of the new mains would mean that Upper Cedar Ridge customers would also share in this cost-reducing benefit.
6. With the new mains installed, both Upper and Lower Cedar Ridge customers would have available treated, stored water, as an auxiliary supply from either source, to be used especially for emergency situations, some of which have been mentioned above.

Concerning the issue of the SDWBA rate surcharge and allocating it to present vacant-lot owners within the Cedar Ridge water system, the staff accountant stated that the Commission has a policy of authorizing investor-owned utilities to only charge actual customers for service. We will apply this policy here. Thus, the SDWBA rate surcharge should be allocated only to actual customers to pay for improved quality and quantity of water.

Toward the conclusion of the public meeting, some customers asked what DHS would do if most of Cedar Ridge's customers were against the SDWBA loan proposal. The DHS representative stated that no matter what happens and regardless of the financing method used, DHS would insist that Cedar Ridge make the water system improvements required to bring the utility's water up to minimum water quality standards. He further stated that DHS could impose a moratorium on hookups of new connections in Cedar Ridge's service area if the water system improvements are not made. Finally, DHS could issue an executive order directing Cedar Ridge to make the necessary plant improvements. As an alternative, DHS could assume operation of the utility, and then make the water system improvements.

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, Cedar Ridge customers were asked for their sentiments. By a show of hands, approximately half the customers present indicated that they were in favor of improving the quality of Cedar Ridge's water, to bring it up to DHS standards, and favored the use of the SDWBA program and required rate surcharge to pay for better water.

The staff of the Commission's Revenue Requirements Division reviewed the application and concludes 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 Cedar Ridge 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,^{1/} wherein it concluded that

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

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.

Cedar Ridge 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 Cedar Ridge to place the surcharge in effect beginning October 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 \$560,200 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 \$44,987 per year. Approximately \$40,758 will be used to meet the loan payments. The remaining \$4,229 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 Cedar Ridge's annual gross revenues by approximately \$44,987 and increase the water rates by approximately \$9.75 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. It is Commission policy to apply the rate surcharge only to actual customers.

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

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

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 October 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, Cedar Ridge 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 October 1, 1981.

2. Cedar Ridge Water Company, Inc., is authorized to borrow \$560,200 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Cedar Ridge 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 Cedar Ridge Water Company, Inc.

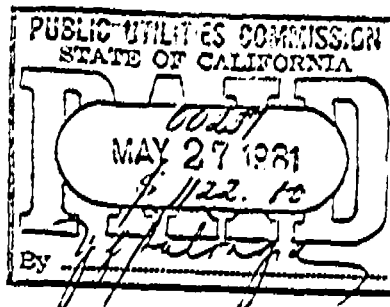
4. As a condition of the rate increase granted herein, Cedar Ridge Water Company, Inc., shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.

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 Cedar Ridge Water Company, Inc., has paid the fee prescribed by PU Code Section 1904(b), which fee is \$1,122. 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.

John E. Guyon President
Richard D. Kneefe
Leonard W. Smith
Walter E. Calver
Presulla C. Green Commissioners



APPENDIX A
 Page 1
 Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Cedar Ridge and vicinity, 5-1/2 miles northwest of Twain Harte, Tuolumne County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Monthly Quantity Rates:		
First 400 cu.ft. or less.....	\$ 5.50	
Over 400 cu.ft., per 100 cu.ft.....	.78	
	<u>Per Meter</u> <u>Per Year</u>	<u>Per Meter</u> <u>Per Month</u> [N]
Annual Minimum Charge:	<u>Charge</u>	<u>: Surcharge</u>
For 5/8 x 3/4-inch meter.....	\$ 66.00	\$ 9.75
For 3/4-inch meter.....	100.00	14.65
For 1-inch meter.....	150.00	24.40
For 1-1/2-inch meter.....	250.00	48.75
For 2-inch meter.....	400.00	78.00 [N]

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

APPENDIX A
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly [N]
metered water bill. The total monthly surcharge must be identi-
fied on each bill. This surcharge is specifically for the
repayment of the California Safe Drinking Water Bond Act loan as
authorized by Decision [a].

[a] Insert Decision Number in Application 60152 [N]
before filing tariff.

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1, is due in advance and is payable in annual, semiannual, or quarterly installments at option of customer.
2. The charge for water used in excess of the monthly allowance under the annual minimum charge may be billed monthly, bimonthly, or quarterly at the option of the utility on a noncumulative monthly consumption basis.

APPENDIX A
 Page 3
 Schedule No. 2A

ANNUAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Cedar Ridge and vicinity, 5-1/2 miles northwest of Twain Harte, Tuolumne County.

RATES

	Per Service Connection [N]	
	Per Year	Per Month
	Charge	Surcharge
For each single-family residential unit or business establishment.....	\$94.00	\$ 9.75
a. For each additional residential unit or business establishment on the same premises and served from the same service connection.	55.00	5.70

SPECIAL CONDITIONS

1. The annual flat rate applies to service during the 12-month period commencing January 1, is due in advance and is payable in annual, semiannual, quarterly, or monthly installments at the option of the utility.
2. The above flat rate applies to service connections not larger than 3/4-inch in diameter.
3. All service not covered by the above classification will be furnished only on a metered basis.
4. Meters may be installed at option of utility or customer for the above classification, in which event service thereafter will be furnished only on the basis of Schedule No. 1A, Annual General Metered Service.

[N]

APPENDIX A
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Schedule No. 2A

ANNUAL FLAT RATE SERVICE

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$94.00 per 3/4-inch 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].

[a] Insert Decision Number in Application 60152 before filing tariff.

[N]

[N]

(End of Appendix A)