

RR/HA/RZE/WPSC

Decision 93138 JUN 2 1981**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 Cold Springs 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 60317
 (Filed March 3, 1981)

O P I N I O N

By this application, Cold Springs Water Company (Cold Springs) requests authority to borrow \$259,500 for 35 years, at an interest rate of 7% 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 appeared on the Commission's Daily Calendar of March 9, 1981.

The utility provides water to the unincorporated area adjacent to State Highway 108, known as the Cold Springs and Peter Pam Subdivisions located 27 miles east of Sonora in Tuolumne County. The service connections consist of 275 flat rate and 87 metered services.

Cold Springs present water supply is derived from Kerns Creek and two wells. Chlorination is the only treatment presently provided. Finished water is pumped to a 100,000-gallon storage tank at the high point in the system and flows by gravity to a 125,000-gallon storage tank in the lower section of the system. The system has serious deficiencies including an unacceptably high turbidity level during high runoff periods and an unreliable chlorination system. Frequent power outages demonstrate a need for increased gravity storage and excess pressure surges at the lower pump station need to be corrected.

Cold Springs proposes to correct the deficiencies in its water distribution system by the installation of a new treatment plant that consists of a direct pressure sand filtration facility, a soda ash food system for pH control, stand-by chlorine feeder, a chlorine analyzer, and enclosed structure. Additional improvements include installing pressure control equipment at the lower pump station, a 420,000-gallon storage tank for the Cold Springs Subdivision and a 100,000-gallon storage tank for the Peter Pam Subdivision.

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 Public Utilities (PU) Code Sections 816 through 851, public utility water companies must obtain authorization from the California Public Utilities Commission (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 the Cold Springs loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated January 20, 1981, DWR informed Cold Springs 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. Installation of new filtration plant	\$ 51,000
2. Disinfection facilities	10,000
3. 420,000-gallon storage tank	88,000
4. 100,000-gallon storage tank	26,500
5. Submersible well pump	7,000
6. Booster pumps (3 each)	9,000
7. Pressure controls, telemetry, structure, etc.	22,000
Subtotal	\$213,500
8. Engineering & Contingencies @ 20%	38,400
Subtotal	\$251,900
9. D.W.R. Administrative Fee @3%	7,600
Total Estimated Project Costs	\$259,500

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 7% 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 \$21,950. 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 \$1,830 per month, requiring an increase in water rates of approximately \$5.00 per month for each residential customer.

SURCHARGE SCHEDULE

<u>Metered Service</u>	<u>Annual Surcharge^{1/}</u>
5/8" by 3/4" Meter	\$ 60.00
3/4" Meter	90.00
1" Meter	150.00
1-1/2" Meter	300.00
2" Meter	480.00
 <u>Flat Rate Service</u>	 <u>Annual Surcharge^{1/}</u>
3/4" Service	\$ 60.00

^{1/} This surcharge is in addition to regular charges and temporary surcharges for water service.

Cold Springs present rates were authorized by Commission Resolution W-1515, effective February 1, 1974.

The estimated annual gross revenues for 1981 at present rates will be about \$39,000. The \$21,950 yearly increase under the SDWBA loan surcharge thus would increase Cold Springs' revenues by approximately 56.3 %.

On the evening of April 1, 1981, a financial examiner from the Commission's Revenue Requirements Division conducted a public meeting at the Pinecrest Grammar School, Pinecrest, California, to explain the SDWBA loan program. The meeting was attended by 24 customers of the utility. Also participating in the meeting were representatives from DHS, DWR and Robert Young representing the consulting engineering firm of Raymond Vail and Associates. At the direction of the Commission, Cold Springs 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 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 Cold Springs' present 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 its field staff and Cold Springs. He summarized the deficiencies identified in the DHS Engineering Report dated July 1980. Specifically, he enumerated that the Cold Springs water is presently treated only by chlorination which does not provide protection for diseases such as Giardiasis. Giardiasis is caused by microorganisms carried by beavers, muskrats, otter and mule deer and transmitted by a water system to man. A filtration system with a chemical pretreatment capability is needed to remove these organisms. He also stated that additional storage is needed to ensure continuous supplies during extended power outages and to replace the old tank in the Peter Pam Subdivision.

Young then described the proposed new water treatment works which will eliminate the 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 which include a new 420,000-gallon storage tank for the Cold Springs Subdivision and replace an old storage tank in the Peter Pam Subdivision. He also gave the estimated costs of each major phase of the improvement program.

Customers were provided the opportunity to question the DHS representative and the utility's consulting engineer. One customer asked a long series of questions on the technical aspects of the

probability of contracting giardiasis from the Cold Springs system. The DHS representative in turn presented a lengthy explanation of his department's requirement to have the Cold Springs water chemically pretreated and filtered to protect the customers. Several questions were asked why their good water has become bad. The response by the DHS representative was that water quality standards have changed. He added that the potential for contamination is real and filtration is necessary. Questions were also asked concerning the need for more storage. The consulting engineer reviewed the present storage capabilities and the possibility of power failures causing water outages.

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 Cold Springs qualified for the loan and the loan administration procedures. The financial examiner presented the proposed SDWBA surcharge and described the special accounting and ratemaking procedures. He made several specific references to the fact that Cold Springs filed a request for a rate increase with the Commission in November 1980. He went into detail to explain that the SDWBA surcharge money would not be used to pay for normal water rate charges.

Another question and answer period followed to provide additional customer participation. Questions were asked about the surcharge. The financial examiner gave a detailed summary of the amounts, collection, deposit, and repayment system. Several customers spoke in favor of the project as a sound investment for the future.

At the conclusion of the meeting, customers were asked for their sentiments. By a show of hands, they overwhelmingly expressed their opinion that better quality water is needed and they were in favor of the SDWBA method of financing the project.

The financial examiner 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 Cold Springs 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 versus rate base in Application 57406 of Quincy Water Company^{2/} 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. ✓ SS

Cold Springs 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

^{2/} Decision 88973, dated June 13, 1978 (Mimeo)

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, 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 on the SDWBA loan due in July 1982 it is necessary for Cold Springs to place the surcharge in effect beginning January 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% 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 \$259,500 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 \$21,950 per year. Approximately \$19,960 will be used to meet the loan payments. The remaining \$1,990 which is 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 Cold Springs' annual gross revenues by approximately \$21,950 and increase the water rates by approximately \$5.00 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. Cold Springs 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 January 1, 1982 to accumulate funds to make the initial payment due in July 1982.

Conclusions of Law

1. The application should be granted to the extent set forth in the following order, and the authorized 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, Cold Springs Water Company 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 January 1, 1982.

2. Cold Springs Water Company is authorized to borrow \$259,500 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Cold Springs 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 Cold Springs Water Company.

4. As a condition of the rate increase granted, Cold Springs 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.

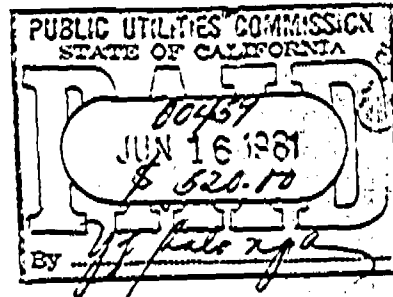
5. Plant financed through the Safe Drinking Water Bond Act loan shall be permanently excluded from rate base for ratemaking purposes.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Cold Springs Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$520. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated JUN 2 1981, at San Francisco, California.

J. E. Sigo
President
Richard D. Gandy
James W. ...
Victor ...
Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A
 Sheet 1
 Schedule 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Cold Springs and Peter Pam Subdivisions, and vicinity,
 located approximately 8 miles east of Long Barn, Tuolumne County.

RATES

		<u>Per Meter Per Month</u>
Monthly Quantity Rates:		
First	800 cu.ft. or less.....	\$ 8.50
Next	2,200 cu.ft., per 100 cu.ft.....	.90
Next	7,000 cu.ft., per 100 cu.ft.....	.65
Over	10,000 cu.ft., per 100 cu.ft.....	.50
		<u>Per Meter Per Year</u>
Annual Minimum Charge:		
For	5/8 x 3/4-inch meter.....	\$102.00
For	3/4-inch meter.....	142.00
For	1-inch meter.....	220.00
For	1 1/2-inch meter.....	395.00
For	2-inch meter.....	510.00
		<u>Per Year Surcharge*(N)</u>
		\$ 60.00
		90.00
		150.00
		300.00
		480.00 (N)

*SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular annual metered (N) water bill. The total annual 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 93138.

(a) Insert Decision number in Application 60317 before filing tariff.

*SDWBA - Safe Drinking Water Bond Act.

APPENDIX A
Sheet 2
Schedule 1

ANNUAL GENERAL METERED SERVICE
(Continued)

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.

SPECIAL CONDITIONS

1. The above annual minimum charges apply to service during the 12-month period commencing January 1, and are due in advance. A customer who has established his permanency by having paid for service during each of the preceding 12 months may elect to pay the annual minimum charge on a monthly basis equal to one-twelfth of the annual minimum charge.

2. The charges for water used in excess of the monthly allowance under the annual minimum charge will be billed monthly on a noncumulative monthly consumption basis.

3. For initial service connected after January 1 the annual charge will be prorated on the basis of the number of months remaining in the calendar year, any portion of a month being treated as a whole month.

APPENDIX A
Sheet 3
Schedule 1

ANNUAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Cold Springs and Peter Pam Subdivisions, and vicinity, located approximately 8 miles east of Long Barn, Tuolumne County.

RATES

	Per Service Connection	
	Per Year	
	Charge	*Surcharge
For a single-family residence or business establishment, including premises.....	\$105.00	60.00
(a) For each additional residence or business establishment on the same premises and served from the same service connection.....	90.00	51.50

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than 3/4-inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.

*SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$105.00 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 02439.

- (a) Insert Decision number in Application 60317 before filing tariff.

APPENDIX A
Sheet 4
Schedule 1

ANNUAL FLAT RATE SERVICE

3. A meter may be installed at the option of the utility for above classification in which event service thereafter will be furnished only on the basis of Schedule 1, Annual General Metered Service.

4. The above flat rate applies to service during the 12-month period commencing January 1, and is due in advance. A customer who has established his permanency by having paid for service during each of the preceding 12 months may elect to pay the annual minimum charge on a monthly basis equal to one-twelfth of the annual minimum charge.

(End of Appendix A)