



Decision 93534 SEP 15 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)
of Berry Creek 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 60513
(Filed May 4, 1981)

O P I N I O N

Berry Creek Water Company, Inc., (Berry Creek) requests authority to borrow \$61,903 for 35 years, at an interest rate of 7% per annum, under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code Sections 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 May 7, 1981.

The utility provides water to approximately 40 customers in the Ponderosa Pines Subdivision in the unincorporated community of Berry Creek, approximately 17 miles northeast of the City of Oroville, Butte County. The service connections consist of 29 metered and 11 flat rate services. The utility has a potential of approximately 170 service connections. There are no other nearby water systems.

The utility's present water supply is obtained from springs originating from Berry Creek. The water is diverted through an open ditch and flume to a small earthen reservoir, and then the water is chlorinated as it enters a second open reservoir which provides chlorine detention time. Finally, the chlorinated water is piped by gravity flow to the distribution system.

Berry Creek has serious deficiencies within its system including inadequate water treatment and storage capacity facilities. The present chlorination treatment is inadequate for producing water meeting primary drinking water quality standards. Since the chlorinated water is stored in an open earthen reservoir before it enters the distribution system, it is subject to excessive bacteriological and turbidity levels because of contamination caused by animals, birds, windblown debris, and surface runoff.

Berry Creek proposes to correct the deficiencies in its water system by constructing new water treatment facilities including filtration equipment, installing a 60,000-gallon covered storage tank, and installing approximately 1,000 feet of 8-inch mains to connect the water treatment and storage facilities with the existing distribution system.

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 and Butte County Department of Health have reviewed the Berry Creek loan proposal and have set forth a summary of construction to be undertaken with the loan proceeds. By letter dated February 3, 1981, DWR informed Berry Creek of its eligibility for a loan under the SDWBA.

The items of construction and estimated costs as proposed by DHS and the Butte County Department of Health are detailed as follows:

<u>Description of Item</u>	<u>Estimated Cost</u>
1. Construct treatment plant facilities including filtration equipment	\$20,450
2. Install 60,000-gallon covered storage tank	21,450
3. Install approximately 1,000 L.F. of 8-inch main to connect storage tank to distribution system	<u>14,000</u>
Subtotal	\$55,900
Engineering Fees	4,200
DWR Administrative Fee 3%	<u>1,803</u>
Total	<u>\$61,903</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 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 surcharge including the 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 fund, net of charges for the fiscal agent's services, will be added to the fund. Net earnings of the 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 \$5,252. 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 \$438 per month, requiring an increase in water rates of approximately \$9.30 per month for each residential customer with a 3/4-inch meter.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Annual Surcharge^{2/}</u>
Residential ^{1/}	\$ 74.40
3/4"	111.60
1"	186.00
1-1/2"	372.00
2"	595.20
^{1/} 5/8" x 3/4" meter or flat rate services not larger than 3/4".	
^{2/} This surcharge is in addition to regular charges for water service.	

Applicants for water service to two or more lots shall make a lump sum contribution of \$600 per lot to the utility. This contribution shall be levied only against new land developments, and shall not be levied against unimproved lots located at the existing Ponderosa Pines Subdivision of the utility. This does not, however, foreclose the possibility that the Commission may, in the future, consider it appropriate to require owners of unimproved lots in the Ponderosa Pines Subdivision to contribute toward the cost of the SDWBA financed improvements when application is made by them for water service. This \$600 per lot contribution is in addition to the SDWBA rate surcharge and to any main extension contracts or contributions of plant required by the water main extension rule. The \$600 lump sum contribution will be due and payable at the time the contract to provide water service is executed.

Berry Creek's present rates were authorized by Commission Resolution W-1216, effective February 1, 1970.

The estimated annual gross revenues for 1981 at present rates will be approximately \$5,250. The \$5,252 yearly increase under the SDWBA loan surcharge thus would increase Berry Creek's revenues by approximately 100%.

On the evening of May 20, 1981, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Grange Hall located at Berry Creek, California. The meeting was attended by approximately 17 customers of the utility. Also participating were representatives from DWR, DHS, Butte County Health Department, and Berry Creek. At the direction of the

Commission, Berry Creek had sent a letter to all customers notifying them of the public meeting. A notice was also published in the local newspaper.

After a general introduction, which included an explanation of the principal aspects of the SDWBA loan proposal, the panel members answered customers' questions concerning various facets of the plant reconstruction program.

Although the Berry Creek customers who were present at the meeting voiced their unanimous support for the plant reconstruction program and rate surcharge, they also strongly urged that in the future, developers of new subdivisions be required to make a lump sum contribution to reduce the principal balance of the SDWBA loan. The customers reasoned that the availability of water service would substantially increase the value of such property, and that present customers who were indirectly financing the water treatment and storage facilities that were responsible for such increases in land values, should share in the benefits. The Commission is cognizant that lots provided with an adequate water supply because of improved water treatment and storage capacity facilities, are more valuable than lots not having an adequate water supply.

Although the Commission long has been aware of such arguments, it has, in the past, for a variety of reasons, been reluctant to impose the type of charge for new connections urged by

the Berry Creek customers. In this particular instance, however, because of the small size of the utility, the relatively large impact that this surcharge will have on water rates, and the enormous benefits that it will bring to new land developments, we shall require such developments to share the burden. Moreover, we are concerned that the actual cost of the plant facilities to be constructed is likely to substantially exceed the amount of the loan. We estimate that these cost overruns will be about 30% of the principal amount of the loan. Accordingly, in the future each new applicant for a main extension contract for water service to two or more lots shall make a lump sum contribution of \$600 per lot to the water utility. Such funds shall be deposited with the fiscal agent, to be applied to future plant construction or to reduction of the principal amount of the rate surcharge, as the Commission, by resolution, shall order. The \$600 contribution shall not be levied against unimproved lots at the Ponderosa Pines Subdivision of Berry Creek. Such lots are located in Berry Creek's existing system, and one of the primary purposes of SDWBA system improvements is to provide for better quality and quantity of water for current and future customers within an existing utility system.

In the near future, Berry Creek plans to expand beyond its present service area, by adding approximately 34 connections

located at the Old Mills Estate Subdivision. The \$600 per lot lump sum contribution was derived by dividing the approximate \$20,400 cost overruns of the proposed SDWBA loan by 34.

The staff of the Commission's Revenue Requirements Division reviewed the application and concluded 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 Berry Creek to enter into the proposed loan contract with DWR and to institute a surcharge on customers' bills to repay the loan.

To ensure adequate accountability of SDWBA loan construction funds advanced by DWR to the utility, such funds should be deposited by Berry Creek in a separate bank account. All disbursements of such DWR loan funds should also pass through this bank account.

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/}

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

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 the 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.

Berry Creek 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 used. 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 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 Berry Creek to place the surcharge in effect beginning October 1, 1981. This will enable the utility to meet the initial payment and make the regular semiannual payments thereafter.

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 an estimated \$61,903 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 \$5,252 per year. Approximately \$4,762 will be used to meet the loan payments. The remaining \$490, which is approximately 10% of the loan payment, will be deposited with the fiscal agent approved by DWR, in order to accumulate a reserve equal to two semiannual loan payments over a 10-year period. Deposits of the SDWBA surcharge funds should be made within 30 days after the date collected.

5. The establishment of a reserve equal to two semiannual loan payments is required by DWR Administrative Regulations.

6. The establishment of a separate bank account by Berry Creek is to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

7. The rate surcharge will increase Berry Creek's annual gross revenues by approximately \$5,252 and increase the water rates by approximately \$111.60 per year for an average residential customer with a 3/4-inch meter.

8. The rate surcharge which is established to repay the SDWBA loan should last as long as the loan. The surcharge should not be intermingled with other utility charges.

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. Berry Creek 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 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 October 1, 1981, to meet the initial payment due in January 1983.

13. The SDWBA improvements will substantially benefit new land developments because such improvements will provide for more adequate water treatment and storage capacity facilities. These SDWBA improvements should increase the value of land by providing an adequate water supply, thereby benefiting both present customers and new land developments. Applicants for water service to two or more lots should be required to share in the burden by making contributions of \$600 per lot to the water utility. Such funds shall be deposited with the fiscal agent, to be applied to future plant

construction or reduce the SDWBA rate surcharge. The \$600 lump sum contribution shall not be levied against unimproved lots located at the Ponderosa Pines Subdivision of Berry Creek. This does not, however, foreclose the possibility that the Commission may, in the future, consider it appropriate to require owners of unimproved lots to contribute toward the cost of the SDWBA financed improvements when application is made by them for water service. The \$600 per lot contribution is in addition to the SDWBA rate surcharge and to any main extension contracts or contributions of plant required by the water extension rule.

Conclusions of Law

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

2. A formal hearing is not necessary.

The following order should be effective five days from the date of signature to enable the utility to place the rate surcharge in effect beginning October 1, 1981.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Berry Creek Water Company, Inc., is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall

comply with General Order 96-A. The effective date of the revised rate schedules shall be five days after the date of filing, and shall apply only to service rendered on or after October 1, 1981.

2. Berry Creek Water Company, Inc., is authorized to borrow \$61,903 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Berry Creek 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 used. 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 Berry Creek Water Company, Inc.

4. As a condition of the rate increase granted, Berry Creek Water Company, Inc., shall be responsible for refunding or applying on behalf of its 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.

6. To assure repayment of the loan, Berry Creek Water Company, Inc., shall deposit all rate surcharge revenue collected with the fiscal agent approved by the California Department of Water Resources. Such deposits shall be made within 30 days after the date collected.

7. Berry Creek Water Company, Inc., shall file with the Commission a copy of the loan contract with the California Department of Water Resources, and a copy of the agreement with the fiscal agent, within 30 days after these documents have been executed.

8. Berry Creek Water Company, Inc., shall establish and maintain a separate bank account, to ensure adequate accountability for deposits and disbursements of California Safe Drinking Water Bond Act loan construction funds advanced by the California Department of Water Resources to the utility.

9. Applicants for water service to two or more lots shall make a lump sum contribution of \$600 per lot to Berry Creek Water Company, Inc. Such funds shall be deposited with the fiscal agent, to be applied to future plant construction or reduction of the California Safe Drinking Water Bond Act rate surcharge. The \$600 per lot contribution is in addition to the California Safe Drinking Water Bond Act rate surcharge and to any main extension contracts or contributions of plant required by the water main extension rule. The \$600 lump sum contribution shall not be levied against

unimproved lots located at the Ponderosa Pines Subdivision of Berry Creek Water Company, Inc. The specific disposition of these contributions will be provided for in a letter from the Executive Director of the Commission.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when the issuer pays \$124, set by PU Code Section 1904(b). In all other respects, this order becomes effective five days from today.

Dated SEP 15 1981, at San Francisco, California.

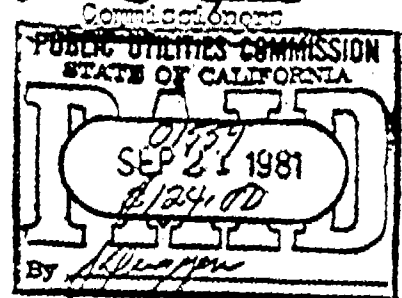
John E. Gurnea

President
Richard D. Wolfe

James W. [unclear]

Arthur [unclear]

Spencer [unclear]



APPENDIX A
Page 1

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The area known as Ponderosa Pines, located 20 miles east of Oroville, Butte County.

RATES

Monthly Quantity Rates:	<u>Per Meter Per Month</u>	
First 600 cu.ft. or less	\$6.30	
Next 1,400 cu.ft., per 100 cu.ft.55	
Next 2,000 cu.ft., per 100 cu.ft.40	
Over 4,000 cu.ft., per 100 cu.ft.30	
Annual Minimum Charge:	<u>Per Meter Per Year Charge</u>	<u>Per Meter Per Year Surcharge</u> (N)
For 5/8 x 3/4-inch meter	\$ 75.60	\$ 74.40
For 3/4-inch meter	95.00	111.60
For 1-inch meter	144.00	186.00
For 1-1/2-inch meter	210.00	372.00
For 2-inch meter	300.00	595.20 (N)

The annual Minimum Charge will entitle the customer to the quantity of water each month which 1/12th of the annual minimum charge will purchase at the Monthly Quantity Rates.

Applicants for water service to two or more lots shall make a lump sum contribution of \$600 per lot to the utility. This contribution shall be levied only against new land developments and shall not be levied against unimproved lots located in the existing Ponderosa Pines Subdivision of the utility. This \$600 per lot contribution is in addition to the SDWBA rate surcharge and to any main extension contracts or contributions of plant required by the water main extension rule. The \$600 lump sum contribution will be due and payable at the time the contract to provide water service is executed. (N)

✓
✓

(N)

APPENDIX A
Page 2

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE
(Continued)

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular annual metered 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 as authorized by Decision (a).

(a) Insert Decision Number in Application 60513 before filing Tariff.

SPECIAL CONDITIONS

1. The annual minimum charge and surcharge apply 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 minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis, except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum 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 1/365th 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.

(N)

(N)

APPENDIX A
Page 3

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The area known as Ponderosa Pines, located 20 miles east of Oroville, Butte County.

RATES

	<u>Per Service Connection Per Year Charge</u>	<u>Per Service Connection Per Year Surcharge</u>	(N)
For single-family residential unit, including premises	\$84.00	\$186.00	
For each additional single-family residential unit on the same premises and served from the same service connection	64.00	141.60	
For service to residential lots without a residence at request of owner	36.00	80.40	

Applicants for water service to two or more lots shall make a lump sum contribution of \$600 per lot to the utility. This contribution shall be levied only against new land developments, and shall not be levied against unimproved lots located in the existing Ponderosa Pines Subdivision of the utility. This \$600 per lot contribution is in addition to the SDWBA rate surcharge and to any main extension contracts or contributions of plant required by the water main extension rule. The \$600 lump sum contribution will be due and payable at the time the contract to provide water service is executed.

(N)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.

APPENDIX A
Page 4

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Continued)

3. For service covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule 1A, Annual General 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.

4. The annual flat rate charge and surcharge apply 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. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.

5. 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 1/365th 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.

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$84.00 per one inch or less service connection, per year. 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 as authorized by Decision

(a).

(a) Insert Decision number in Application 60513 before filing tariff.

(N)

(N)

(End of Appendix A)