

Decision 93727 NOV 13 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)
of Bodfish 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 60656
(Filed June 16, 1981)

O P I N I O N

Bodfish Water Company, Inc., (Bodfish) requests authority to borrow \$257,500 for 30 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 June 18, 1981.

The utility provides water to approximately 600 customers in the unincorporated systems known as Lower and Upper Bodfish, although these two systems are noncontiguous to each other. The Lower Bodfish System is located adjacent to State Highway 178, immediately west of the unincorporated community of Bodfish. The Upper Bodfish System is located 1 mile due east of the Lower Bodfish System. The community of Bodfish is located approximately 2 miles southwest of Lake Isabella, Kern County, and the population

in the Bodfish service area is approximately 1,600. The Lower and Upper 'Bodfish Systems' service connections consist of 446 and 154 metered services, respectively.

The utility's present water supply is obtained from nine underground wells, two of which are located in the Upper Bodfish System. These water supplies require no filtration and chlorination treatment because all ground water sources meet primary drinking water standards.

Bodfish has serious deficiencies within its systems, including inadequate water storage capacity facilities, insufficient sources of water supply, and deteriorating distribution mains.

Bodfish proposes to correct the deficiencies in its water systems by installing two 42,000 gallon storage tanks, drilling 3 wells, and replacing approximately 6,000 feet of deteriorating 6-inch distribution mains.

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 the Bodfish loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated April 29, 1981, DWR informed Bodfish of its eligibility for a loan under the SDWBA.

The items of construction and estimated costs as proposed by DHS are detailed as follows:

<u>Description of Item</u>	<u>Estimated Cost</u>
1. Install 2 42,000-gallon storage tanks	\$ 30,000
2. Drill 3 wells	109,000
3. Replace approximately 6,000 feet of 6-inch distribution mains	<u>72,000</u>
Subtotal	\$211,000
Engineering Fees	39,000
DWR Administrative Fee 3%	<u>7,500</u>
Total	<u>\$257,500</u>

The proposed loan from DWR will provide for a 30-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 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 \$22,860. 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 connection. The following surcharge would produce approximately \$1,893 per month, requiring an increase in water rates of approximately \$6.35 per month for each residential customer with a 5/8-inch x 3/4-inch meter.

SURCHARGE SCHEDULE

<u>Size of Meter</u>	<u>Monthly Surcharge^{2/}</u>
Residential ^{1/}	\$ 6.35
3/4"	9.55
1"	15.90
1-1/2"	31.75
2"	50.80

^{1/} 5/8" x 3/4" meter.

^{2/} This surcharge is in addition to regular charges for water service.

Bodfish's present rates were authorized by Commission Resolution W-2870, effective August 18, 1981.

The estimated annual gross revenues at present rates will be approximately \$46,247. The \$22,860 yearly increase under the SDWBA loan surcharge thus would increase Bodfish's revenues by approximately 49%.

On the evening of July 7, 1981, a staff accountant from the Commission's Revenue Requirements Division conducted a public meeting at the Veterans Memorial Hall, Lake Isabella, California. The meeting was attended by approximately 113 customers of the utility. Also participating were representatives from DHS, DWR, and Bodfish. At the direction of the Commission, Bodfish 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 all the basic aspects of the SDWBA loan proposal, the floor was opened for questions. Most of the questions were of a routine nature concerning the plant reconstruction program, and the panel members answered these questions to the customers' satisfaction. The most controversial issue was customers' concerns about the utility's owner performing his own construction of the SDWBA water system improvements. The DHS, DWR, and staff accountant representatives informed the utility's customers that Bodfish needed written permission from DWR before the utility could do its own construction work. Also, Bodfish had to adhere to certain written guidelines issued by DWR that pertained to construction of a SDWBA project by an applicant water company.

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, Bodfish customers were asked for their sentiments. By a show of hands, they overwhelmingly agreed that the utility's present system needed

improvements to bring the water quality and quantity up to minimum standards. When asked whether they favored the SDWBA loan payment and accompanying rate surcharge, the customers also overwhelmingly approved.

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 Bodfish 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 Bodfish 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.

Bodfish 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 Bodfish to place the surcharge in effect beginning April 1, 1982. 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 \$257,500 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 \$22,860 per year. Approximately \$20,646 will be used to meet the loan payments. The remaining \$2,214, 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 Bodfish 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 Bodfish's annual gross revenues by approximately \$22,860 and increase the water rates by approximately \$6.35 per month for an average residential customer with a 5/8-inch by 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. Bodfish 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 used. 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 April 1, 1982, to meet the initial payment due in January 1983.

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.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Bodfish Water Company, Inc., (Bodfish) 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 30 days after the date of filing, and shall apply only to service rendered on or after April 1, 1982.

2. Bodfish is authorized to borrow \$257,500 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Bodfish 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 Bodfish.

4. As a condition of the rate increase granted, Bodfish 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, Bodfish 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. Bodfish 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.

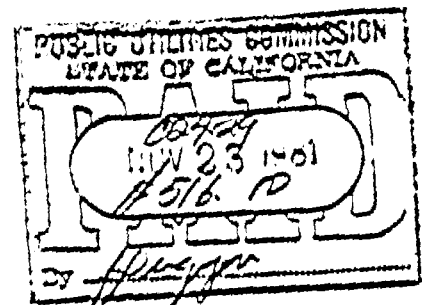
8. Bodfish shall establish and maintain a separate bank account, to ensure adequate accountability for deposits and disbursements of California Safe Drinking Water Bond Act loan construction funds advanced by the California Department of Water Resources to the utility.

A.60656 RR/CFF/WPS/WPSC

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 \$516, set by PU Code Section 1904(b). In all other respects, this order becomes effective 30 days from today.

Dated NOV 13 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners



I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS.

Joseph E. Bryson
Joseph E. Bryson, Executive Director

APPENDIX A
Page 1

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area including Tract 2275 and vicinity located adjacent to State Highway 178 immediately west of the community of Bodfish, and the unincorporated area including Tract 3049 known as Canyon Heights, Kern County.

RATES

Monthly Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 300 cu.ft. or less	\$4.50
Over 300 cu.ft., per 100 cu.ft.87

Annual Minimum Charge:	<u>Per Meter</u> <u>Per Year</u> <u>Charge</u>	<u>Per Meter</u> <u>Per Month</u> <u>Surcharge</u>	(N)
For 5/8 x 3/4-inch meter	\$ 66.00	\$ 6.35	
For 3/4-inch meter	96.00	9.55	
For 1-inch meter	154.00	15.90	
For 1-1/2-inch meter	240.00	31.75	
For 2-inch meter	360.00	50.80	(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.

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).

(a) Insert Decision Number in Application 60656 before filing tariff.

(N)

(N)

APPENDIX A
Page 2

Schedule No. 1A

ANNUAL METERED SERVICE
(Continued)

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.

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 $1/365$ th 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)