

RR/HA/ARM/WPSC

ORIGINAL

Decision 93798

DEC - 1 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 Benbow Water Company, Inc., )  
 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 60898  
 (Filed September 15, 1981)

O P I N I O N

By this application, Benbow Water Company, Inc. (Benbow) requests authority to borrow \$103,000 for 25 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 September 18, 1981. Also, notice was provided to all customers.

The utility provides water to Benbow, an unincorporated community in Humboldt County. The service connections consist of 73 metered services.

Benbow's present water supply is derived from an intake and collector system located near the Benbow Valley Recreational Vehicle Park. Treatment consists of chlorination for bacteriological control. The system has deficiencies which include a

decreasing supply of water and sand entering the system due to modifications of the dam at Benbow Lake, inadequate storage capacity needed for required water pressure and peak demands, and a better chlorination system.

Benbow proposes to correct the water supply and storage deficiencies by construction of a new water intake and collector system on the East Branch, South Fork, Eel River at Fern Springs Road and install necessary pumps, valves, electrical controls, and chlorine contact tank together with construction of 100,000 gallons of additional storage.

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 Department of Water Resources (DWR) for low-interest rate loans. The California Department of Health Services (DHS) and the Humboldt-Del Norte County Department of Public Health (HDNPH) are 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 HDNPH has reviewed the Benbow loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated August 26, 1981, DWR informed Benbow of its eligibility for a loan under the SDWBA.

The items of construction and estimated costs approved by DWR at that time are detailed as follows:

<u>Description of Item</u>	<u>Estimated Cost</u>
1. Construction of collector and intake system	\$ 52,000.00
2. Install storage tank	38,000.00
3. Water conservation devices	<u>1,000.00</u>
Subtotal	\$ 91,000.00
10% Engineering and Contingencies	<u>9,000.00</u>
Total Contract Work	\$100,000.00
Department of Water Resources Fees	<u>3,000.00</u>
Total Loan Amount	\$103,000.00

The proposed loan will provide for a 25-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 customer 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 on funds deposited with the fiscal agent, 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 \$9,660. 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 service connection.

The following surcharge would produce approximately \$805 per month, requiring an increase in water rates of approximately \$7.50 per month for each residential customer.

SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge</u> <sup>1/</sup>
5/8" x 3/4" meter	\$ 5.00
3/4" meter	7.50
1" meter	12.50
1-1/2" meter	25.00
2" meter	40.00
3" meter	75.00
4" meter	125.00

<sup>1/</sup> This surcharge is in addition to regular charges and temporary surcharges for water service.

Benbow's present rates were authorized by Commission Resolution W-2471, effective February 1, 1979.

The estimated annual gross revenues for 1981 at present rates will be about \$21,500. The \$9,660 yearly increase under the SDWBA loan surcharge thus would increase Benbow's revenues by approximately 45%.

On the evening of October 13, 1981, a financial examiner from the Commission's Revenue Requirements Division conducted a public meeting at the Board Room of the South Humboldt Unified School District Office, Garberville, California, to explain the SDWBA loan program. The meeting was attended by 19 customers of

the utility. Also participating in the meeting were representatives from HDNPH, DWR, and Benbow. At the direction of the Commission, Benbow 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 HDNPH representative conducted the first phase of the meeting by explaining Benbow's present water quality problem areas and the plant improvements needed to correct these deficiencies. He also outlined the regular HDNPH inspection and testing requirements conducted by its staff and Benbow. He summarized the deficiencies identified in the HDNPH Revised Water Permit dated June 29, 1981. Specifically, he described Benbow's needs for a new source of water supply, additional storage, and a new system of chlorination.

Winston Benbow, president of Benbow, described the immediate need to construct a new water intake and collection system. Several years ago, the California Department of Parks and Recreation completed modifications to the dam at Benbow Lake. The dam is downstream from Benbow's present intake system. The modifications have resulted in a loss of 2 or 3 feet of stream bed gravel. This has caused a lowering of the water table and damaged the collector allowing sand to enter the water system.

Benbow wrote to the DWR on August 28, 1981, requesting authority to start the construction of a new intake and collection system. The urgency was based upon the requirement to complete the work prior to the normal rainy season. DWR approved Benbow's request on September 3, 1981, to obtain their own short-term financing of \$35,000 and begin constructing the new water supply. Winston Benbow also described the need for 100,000 gallons of additional storage to provide adequate supply during periods of high demand.

Numerous questions were asked regarding the location of the new intake and collector system, the changes in the river bed due to the dam modifications, and the new storage capacity. The HDNPH representative and Winston Benbow answered the questions in detail.

The remaining portion of the meeting was devoted to explaining the SDWBA financing procedures and the costs to the ratepayers.

The DWR representative gave a brief history of the program and described in detail how Benbow qualified for the loan and the loan administration procedures. The financial examiner explained the proposed SDWBA surcharge and described the special accounting and ratemaking procedures. He also pointed out that the

SDWBA rate surcharge would be in addition to normal charges for water service and would not preclude future requests for rate increases to cover increases in expenses.

Several questions were asked regarding the surcharge amounts for commercial-size meters. The financial examiner explained the entire surcharge schedule. He also gave a detailed description of the surcharge billing, collection, transfer of funds to the fiscal agent, and loan repayment provisions.

At the conclusion of the meeting, customers were asked for their sentiments. By a show of hands, they overwhelmingly expressed their support for a SDWBA loan and rate surcharge to improve the water system at Benbow.

The SDWBA loan clearly is the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Benbow to enter into a loan contract with DWR and to institute a surcharge on customers' bills to repay the loan.

Benbow should establish a separate bank account in which to enter all progress payments from DWR and all disbursements to suppliers.

The DWR has expressed a clear preference for the surcharge method of financing SDWBA loans, in lieu of rate base treatment, because the surcharge method provides greater security for its loans. The Commission considered this issue of surcharge



versus rate base in Application 57406 of Quincy Water Company<sup>1/</sup> wherein it concluded that the surcharge method, which requires a substantially lower initial increase in customer rates, is the most desirable method of financing SDWBA loans.

The SDWBA loan repayment surcharge should be separately identified on customers' bills. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes and the depreciation on this plant should be recorded in memorandum accounts for income tax purposes only.

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.

Benbow should establish a balancing account to be credited with revenue collected through the surcharge, with interest earned on funds deposited with the fiscal agent and with investment tax credits arising from the plant reconstruction program as they are used. Surcharge revenues should be deposited with the fiscal agent within 30 days after collection. The balancing account should be charged for the services of the fiscal agent.

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

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, 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 final initial payment on the SDWBA loan due in July 1, 1982, it is necessary for Benbow to place the surcharge in effect beginning February 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 financing the projects. The plant reconstruction program will cost an estimated \$103,000 including a 3% administrative charge by DWR.

3. The proposed borrowing is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the loan authorized by this decision is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

4. The proposed surcharge will generate approximately \$9,660 per year. Approximately \$8,782 will be used to meet the loan payment. The remaining \$878, 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. Deposits of the SDWBA surcharge money should be made with the fiscal agent within 30 days after collection from customers.

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

6. The rate surcharge will increase Benbow's annual gross revenues by approximately \$9,660 and increase the water rates by approximately \$7.50 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 should 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. Benbow should establish a balancing account to be credited with revenue collected through the surcharge, with interest earned on funds deposited with the fiscal agent, and with investment tax credits resulting from the plant construction, as they are used. The balancing account should be reduced by payments of principal and interest on the loan and with any charges for the services of the fiscal agent. The rate surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

10. Benbow should establish a separate bank account in which to record all progress payments from DWR and all disbursements to suppliers.

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 February 1, 1982, to accumulate funds to make the initial payment due in July 1, 1982.

Conclusions of Law

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

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, Benbow Water Company, Inc. (Benbow), 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 February 1, 1982.

2. Benbow is authorized to borrow \$103,000 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Benbow shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on funds on deposit with the fiscal agent and the value of investment tax credits on the plant, as used. The

balancing account shall be reduced by payments of principal and interest to the State Department of Water Resources and by any charges for the services of the fiscal agent. A separate statement of the surcharge shall appear on each customer's water bill issued by Benbow.

4. As a condition of the rate increase granted, Benbow 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 Safe Drinking Water Bond Act loan shall be permanently excluded from rate base for ratemaking purposes.

6. To assure repayment of the loan, applicant shall deposit all surcharge revenues collected with the fiscal agent approved by the State Department of Water Resources. Such deposits shall be made within 30 days after the surcharge moneys are collected from customers.

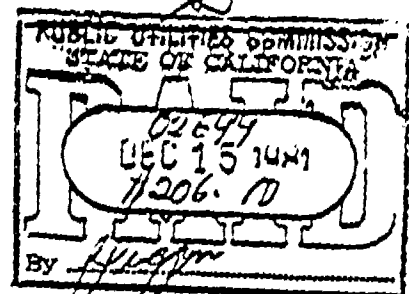
The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Benbow has paid \$206, set by PU Code Section 1904(b). In all other respects, this order becomes effective 30 days from today.

Dated DEC 1 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 TODAY.

*Joseph E. Bodovitz*  
Joseph E. Bodovitz, Executive Director



APPENDIX A

Schedule No. IA

Sheet 1

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Benbow and vicinity, located approximately three miles south of Garberville, Humboldt County.

RATES

Per Meter  
Per Month

Monthly Quantity Rates:

First 600 cu. ft. or less.....	\$ 6.00
Next 2,400 cu. ft., per 100 cu. ft. ....	.78
Next 6,000 cu. ft., per 100 cu. ft. ....	.65
Over 9,000 cu. ft., per 100 cu. ft. ....	.422



APPENDIX A  
 Schedule No. IA  
 Sheet 2

ANNUAL METERED SERVICE  
 (Continued)

	<u>Per Meter</u>	<u>Per Year</u>
	<u>Service</u>	<u>Surcharge*</u>
	<u>Charge</u>	<u>Surcharge*</u>
Annual Minimum Charge:		
For 5/8- 3/4-inch meter.....	\$ 72.00	\$ 60.00
For 3/4-inch meter.....	133.00	90.00
For 1-inch meter.....	243.00	150.00
For 1-1/2-inch meter.....	425.00	300.00
For 2-inch meter.....	728.00	480.00
For 3-inch meter.....	1,092.00	900.00

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.

\*SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular metered water bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan authorized by Decision No. (a).

(a) Insert Decision number in Application (A.)60898 before filing tariff.

\*SDWBA - Safe Drinking Water Bond Act.

APPENDIX A

Schedule No. IA

Sheet 3

ANNUAL METERED SERVICE

(Continued)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12-months, he may elect, at the beginning of the calendar year, to pay prorated 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 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)