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Decision 96-02-032 February 23, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Fulton Water Company to obtain a loan of \$800,000 and increase water rates over a three-year period. (Utility No. U-88-W-111)

Application 94-03-007 (Petition for Modification) Filed December 8, 1995

OPINION ON MODIFICATION OF DECISION 95-10-015

ORIGINAL

Fulton Water Company (applicant) filed a petition for modification (petition) of Decision (D.) 95-10-015 on December 8, 1995. The petition appeared on the Commission's Daily Calendar of December 12, 1995. A copy of the petition was served on all parties of record. No protest to the petition has been received. Therefore, a hearing need not be held on this matter.

Applicant intends to undertake a construction project to bring applicant's water system in compliance with the Federal Safe Drinking Water Act, as administered by the California Department of Health Services. Pursuant to Ordering Paragraph 6 (Ordering Paragraph) of D.95-10-015, applicant is authorized to file a rate base offset request upon completion of the construction project.

By its petition, applicant seeks to modify the Ordering Paragraph so that it may file rate base offsets at the completion of semiannual phases of the project, instead of waiting until the three-year project is completed.

The project is scheduled to be constructed with borrowed funds from the National Bank for Cooperatives (CoBank). However, absent periodic rate offsets, applicant cannot satisfy the cash flow requirements set forth in the CoBank loan agreement. This is because applicant will be making interest payments to CoBank throughout the three-year construction period with no opportunity to earn a return on the project until the project has been fully completed.

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Applicant's petition is reasonable to the extent that the semiannual phases of the project are deemed used and useful for utility purpose. Accordingly, the Commission's Advisory and Compliance Division's Water Branch should conduct reasonableness reviews on any semiannual filing submitted by applicant.

Findings of Fact

1. Applicant seeks a modification of D.95-10-015 so that it may obtain rate base offset increases as phases of the project are used and useful.

2. Notice of the petition appeared on the Commission's Daily Calendar of December 12, 1995.

3. No protests to the petition have been received.

Conclusion of Law  
Applicant's petition should be approved to the extent provided in the following Order.

ORDER

Applicant intends to undertake a construction project to bring applicant's water system in compliance with the Federal Drinking Water Act, as administered by the California Department of Health Services.

IT IS ORDERED that Decision (D.) 95-10-015 shall be modified, as shown in Appendix A, to permit Fulton Water Company to seek rate base offset increases no more than twice in a calendar year on phases of the project that are used and useful.

Paragraph 6 of D.95-10-015 shall be modified to read as follows:

"6. Applicant shall submit reports to the CACD's Chief of the Water Branch on project capital expenditures no later than six months after any portion of the project is used and useful, and shall be authorized to file no more than twice in a calendar year for rate base offsets only upon those portions of the project that are used and useful, subject to reasonableness review. The 11.80% rate of return on rate base authorized in Ordering paragraph 1 shall be modified to reflect the traditional rate making method based on applicant's average cost of debt and an imputed capital structure. The rate of

return on equity shall be set through this  
advice letter process."

This order becomes effective 30 days from today.

Dated February 23, 1996, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
P. GREGORY CONLON  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
Commissioners

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DECISION 95-10-015 ORDERING PARAGRAPHS  
MODIFIED PURSUANT TO DECISION 96-02-032

O.R.D.E.R

IT IS ORDERED that the following be done:

1. The Fulton Water Company (Fulton or Applicant) is authorized to file the revised schedule attached to this order as Appendix B and to concurrently cancel its present schedules for such services. This filing shall comply with General Order (GO) 96. The effective date of the revised schedules shall apply to service rendered on or after the effective date of this order.

2. On or after November 5, 1995, applicant is authorized to file an advice letters with appropriate workpapers, requesting the step rate increases for 1996 included in Appendix B, or to file a proportionate lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1995, exceeds 11.80% or the resultant rate of return on rate base authorized by Ordering Paragraph 6. This filing shall comply with GO 96. The requested step rates shall be reviewed by the CACD to determine their conformity with this order and other Commission orders, and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accordance with this decision. The effective date of the revised schedules shall be no earlier than January 1, 1996, or 30 days after filing, whichever is later. The revised schedules shall apply only to service rendered on or after their effective date.

3. Applicant is authorized to borrow \$800,000 from CoBank of Colorado to execute the proposed loan contract and to use the proceeds as specified in the application and amended application. Applicant shall exercise prudent management practices in selecting

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the appropriate interest rate method for the loan, whether it be the variable or fixed interest rate method.

4. Applicant's utility plant financed with the CoBank loan shall be repaid through revenue requirement derived from the rate basing of the plant for ratemaking purposes.

5. Applicant shall submit a copy of its loan agreement with CoBank within 15 days of execution to the Commission's Advisory and Compliance Division (ACD), Chief of the Water Branch.

6. Applicant shall submit reports to the ACD's Chief of the Water Branch on project capital expenditures no later than 6 months after any portion of the project is used and useful, and shall be authorized to file no more than twice in a calendar year for rate base offsets on portions of the project that are used and useful, subject to reasonableness review. The 11.80 percent rate of return on rate base authorized in Ordering Paragraph 1 shall be modified to reflect the traditional rate making method based on applicant's average cost of debt and an imputed capital structure. The rate of return on equity shall be set through this advice letter process.

7. The authority granted in Ordering Paragraph 3 is exercised contingent upon applicant obtaining written approval from the California DHS that the project to be undertaken with the loan proceeds will place applicant in compliance with the DHS Surface Water Treatment Regulations.

8. The authority granted by this order to issue an evidence of indebtedness will become effective upon applicant paying \$1,600, the fee set by Public Utilities Code § 1904 (b) to the Commission's Fiscal Office of the Management Services Division.

9. Toro Water Services, Inc.'s petition to intervene in this proceeding is denied.

Applicant is authorized to execute the proposed loan contract and to use the proceeds as specified in the application and amended application.

Applicant shall exercise prudent judgment in the use of the loan proceeds. Modified pursuant to D.96-02-032.