

AC/HA/WT

Decision 88 01 037 JAN 28 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 Russian River Management Co., dba)
 Armstrong Valley Water Company)
 to borrow additional 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. (CIS #U-107-W(D)))

ORIGINALApplication 87-10-025
(Filed October 19, 1987)O P I N I O N

By Decision (D.) 93271, dated July 7, 1981 and Decision (D.) 82-09-063 dated September 22, 1982 the California Public Utilities Commission (Commission) authorized Armstrong Valley Water Company (Armstrong) to borrow a total of \$240,000 from the California Department of Water Resources (DWR) under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code 13850 et seq.). The proceeds of the SDWBA loan were used to finance water system improvements. The terms of the SDWBA loan provided for a 30-year repayment schedule with equal semiannual payments of \$10,584, covering principal, interest, and reserve at a rate of 7% per annum. Also, the Commission authorized Armstrong to institute a surcharge on existing customer rates to repay the loan.

The original SDWBA project was completed in 1982. It provided a new well as a second water source and replaced older mains in the Main Service Area. In the Noel Heights area the storage tank was replaced along with replacing a portion of the mains.

Each year the Department of Health Services (DHS) makes it's inspection of the system. As part of their review DHS determined that Armstrong's Main Service Area should have a storage capacity of at least 156,000 gallons. The present storage consists of 46,000 gallons in two concrete tanks, 18,000 gallons in a redwood tank and 25,000 gallons in an old steel tank built in 1946. The steel tank has had several leaks and is badly deteriorated both inside and out. The redwood tank is approximately 50 years old and needs to be replaced.

DHS is requiring Armstrong to do the following:

1. Dismantle and not replace the 15,000 gallon redwood tank.
2. Dismantle and replace the 25,000 steel tank with a new 110,000 gallon stainless steel tank.

The cost of installing a new 110,000 gallon stainless steel tank along with the necessary connections, engineering fees and DWR administrative costs is \$114,227. Armstrong requested and received a commitment from DWR for the additional \$114,227 needed to meet the Main Service Area storage requirement.

A comparison of the original loan authorized by D.93271 and the first supplemental loan authorized by D.82-09-063 and the new second supplemental loan authorized by DWR is set forth:

Main Service Area

<u>Loan Costs</u>	<u>Original Loan D.93271</u>	<u>First Supplemental D.82-09-063</u>	<u>This Request</u>	<u>Increase</u>
1. Amount of the loan	\$179,650	\$240,000	354,227	114,227
2. Interest rate	7%	7%	8-1/2%	1-1/2%
3. Annual debt service	15,843	21,167	32,805	11,638
4. Term of loan	30 years	30 years	30 years	-
5. Monthly surcharge	1,320	1,764	2,734	970

Annual Customer Surcharge
Main Service Area

5/8"x3/4"	\$54.60	\$72.00	\$118.20	\$ 46.20
3/4"	82.20	108.00	167.60	69.60
1"	136.80	180.00	295.80	115.80
1-1/2"	273.00	260.00	491.00	231.00
2"	436.80	576.00	945.60	369.60

A.87-10-025 AC/HA/WT

On October 19, 1987, Armstrong filed A.87-10-025 requesting that D.82-09-063 be modified to permit Armstrong to borrow the additional \$114,227 and to increase the rate surcharge to repay the SDWBA loan. Notice of filing A.87-10-025 appeared in the Commissions Daily Calendar of October 26, 1987.

On the evening of November 12, 1987, a staff accountant from the Commission Advisory and Compliance Division conducted a public meeting at the Guerneville Elementary School, Guerneville, California to explain the new SDWBA project. Only three customers attended the meeting. Due to the very small attendance, the meeting was devoted to answering their questions. One letter was also received. A 2% customer response is interpreted as expressing the same affirmative sentiments as expressed to the prior two loan requests.

The SDWBA loan is clearly the most feasible and economic method of financing the needed additional cost of the improvement project. The Commission, therefore, will authorize Armstrong to enter into the proposed revised loan contract with DWR and institute the increased rate surcharge to only the Main Service Area customer bills to repay the loan.

In order for the surcharge to produce enough revenue to meet the payment on the SDWBA loan due in January 1989, it is necessary for Armstrong to place the revised surcharge in effect on July 1, 1988. This will enable the utility to continue to meet the regular semiannual payments thereafter.

Findings of Fact

1. The proposed water system improvements are needed to produce a healthy 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 \$354,227 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 \$32,805 per year. Approximately \$29,823 will be used to meet the loan payment. The remaining \$2,982, which is approximately 10% of the loan payment, will remain 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 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 maintenance of a separate bank account by Armstrong, is required 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 Armstrong's annual gross revenues by approximately \$11,638 and increase the water rates by approximately \$3.85 per month for an average residential customer with larger meter capacities increased proportionately.

8. The rate surcharge established to repay the SDWBA loan should last as long as the loan. The surcharge payment 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. Coast Springs should establish a balancing account to be credited with revenue collected through the surcharge, and with interest earned on funds deposited with the fiscal agent. 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.

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 July 1, 1988, to meet the initial payment due in January 1989.

Conclusions of Law

1. The petition should be granted to the extent set forth in the following order because the revised rates are just and reasonable.

2. A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Armstrong Valley Water Company (Armstrong) 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 July 1, 1988.

2. Armstrong is authorized to borrow \$354,227 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Armstrong shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made to the fiscal agent. The balancing account shall be reduced by payment of principal and interest to the California Department of Water Resources (DWR) and by any charges for the services of the fiscal agent. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Armstrong.

4. As a condition of the rate increase granted, Armstrong 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 California Safe Drinking Water Bond Act of 1976 (SDWBA) loan shall be permanently excluded from rate base for ratemaking purposes.

6. To assure repayment of the loan, Armstrong shall deposit all rate surcharge and revenue collected with the fiscal agent approved by DWR. Such deposits shall be made within 30 days after the surcharge and up-front cash payment moneys are collected from the customers.

7. Armstrong shall file with the Commission a copy of the loan contract with DWR, and a copy of the agreement with the fiscal agent, within 30 days after these documents have been executed.

8. Armstrong shall establish and maintain a separate bank account, to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by DWR to the utility.

9. The application is granted as set forth above.

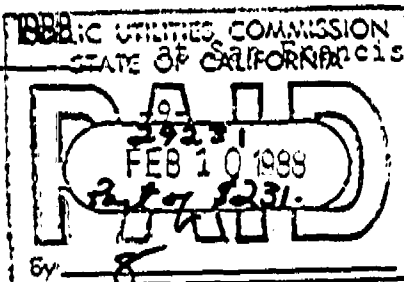
The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when the issuer pays \$230, set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated **JAN 28 1988** PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA, San Francisco, California.

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



Victor Weisser, Executive Director *VB*



STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

APPENDIX A
 Schedule No. 1A
 Page 1
ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Armstrong Woods Valley, Lone Mountain Subdivision and vicinity, located approximately 1-1/2 miles north of the city limits of Guerneville, Sonoma County.

RATES

Monthly Quantity Rates:	<u>Per Meter Per Month</u>
First 400 cu. ft. per 100 cu. ft.	\$1.10
Over 400 cu. ft., per 100 cu. ft.	\$1.42

	<u>Per Meter Per Year</u>	<u>SDWBA*</u>
	<u>Service Charge</u>	<u>Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 96.00	\$118.20 (N)
For 3/4-Inch meter	\$105.00	\$177.30
For 1-inch meter	\$144.00	\$295.50
For 1-1/2-inch meter	\$192.00	\$591.00
For 2-inch meter	\$260.00	\$945.60 (N)

The Service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge for water consumed computed at the Monthly Quantity Rates.

*SDWBA 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 authorized by Decision (a) 88 01 037.

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

*SDWBA - Safe Drinking Water Bond Act

APPENDIX A
Schedule No. 1A
Page 2

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Noel Heights Subdivision located on the east side of State Highway 116, approximately 2-1/2 miles southeasterly of the Guerneville City Limits, Sonoma County.

RATES

Monthly Quantity Rates:	<u>Per Meter Per Month</u>	
First 400 cu. ft. per 100 cu. ft.	\$1.10	
Over 400 cu. ft. per 100 cu. ft.	1.42	
Annual Service Charge:	<u>Per Meter</u>	<u>Per Year</u>
	Service	SDWBA *
	Charge	Surcharge
For 5/8 x 3/4-inch meter.....	\$ 96.00	\$ 72.00
For 3/4-inch meter.....	105.00	108.00
For 1-inch meter.....	144.00	180.00
For 1-1/2-inch meter.....	192.00	260.00
For 2-inch meter.....	260.00	576.00

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge for water consumed computed at the Monthly Quantity Rates.

*SDWBA SURCHARGE

NOTE: This surcharge is in addition to 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 authorized by Decision No. 82-09-063.

Appendix A
Schedule No. 1A
Page 3
ANNUAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The annual minimum charges applies to service during the 12-month period commencing July 1, and are 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 year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods 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 service charge for the service. Where initial service is established after the first day of July, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three hundred-sixty-fifth ($1/365$) 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, or refund of the initial annual charges shall be due the customer.

3. Fire Protection Revenue Loss Surcharge collection by the utility is subject to refund pending review by the Public Utilities Commission.

4. Fire Protection Revenue Loss Surcharge is to be clearly and separately stated on utility's billing as a "Fire Protection Surcharge" or fully explained in a billing insert with each calendar year customer bill.

APPLICABILITY

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

ANNUAL RESIDENTIAL FLAT RATE SERVICE

TERRITORY

The unincorporated areas known as Noel Heights subdivisions located on the east side of State Highway 116, approximately 2-1/2 miles southeasterly of the Guerneville City Limits, Sonoma County.

RATES

	Per Service Connection Per Year	
	Charge	SDWBA* Surcharge
For a single-family residential unit including premises.....	\$139.00	\$72.00*
For each additional single-family residential unit on the same premises and served from the same service connection.....	\$139.00	\$72.00

*SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$139.00 per 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 No. 82-09-063.

SPECIAL CONDITIONS

1. The above flat rates apply to service connection not larger than one inch in diameter.
2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual 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.

ANNUAL RESIDENTIAL FLAT RATE SERVICE
(Continued)

3. The annual flat rate charge applies to service during the 12-month period commencing July 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 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 July 1, service will not be restored until the total annual charge has been paid.

4. 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 July, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) 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)