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Decision 82 09 063 SEP 22 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Russian River Management)
Company dba Armstrong Valley Water)
Company for authority to borrow)
money 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 60401
(Filed March 27, 1981)

PETITION FOR MODIFICATION OF
DECISION 93271

By Decision (D.)93271, dated July 7, 1981, in Application (A.)60401, the California Public Utilities Commission (Commission) authorized Armstrong Valley Water Company (Armstrong) to borrow \$179,650 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 to be used to finance water system improvements. The terms of the SDWBA loan provided for a 30-year repayment schedule with equal semiannual payments of \$7,920, covering principal, interest, and reserve at a rate of 7% per annum. Also, the Commission authorized Armstrong to institute surcharge on existing customer rates to repay the principal and interest on the loan.

Upon receiving the decision, Armstrong immediately proceeded to prepare the SDWBA project plans and specifications. In September 1981, Armstrong submitted to DWR documents needed to obtain funding for the SDWBA loan. DWR advised Armstrong that the SDWBA loan program was temporarily out of funds, because all money from the first sale of bonds had been distributed, and the sale of additional bonds had been delayed until interest rates dropped to the legal limits for California bonds.

In March 1982, DWR gave notice to Armstrong that additional SDWBA bonds had been sold and funding was available. Bids were opened for the project on May 27, 1982.

In applying for the loan from DWR in early 1981, Armstrong's consulting engineer estimated the project to cost \$179,650. When the bids were opened on May 27, 1982, the low bid was \$240,000. Armstrong immediately requested and received a commitment from DWR for the additional \$60,350 needed for the SDWBA project.

Armstrong serves a total of 223 customers in its main system and 48 customers in its noncontiguous Noel Heights system. A comparison of the original loan authorized by D.92371 dated July 7, 1981, in A.60401 and the new loan authorized by DWR is set forth on the next page.

<u>Loan Costs</u>	<u>Original</u>	<u>Revised Loan</u>
1. Amount of the loan	\$179,650.00	\$240,000.00
2. Interest rate	7%	7%
3. Annual debt service	15,843.00	21,167.00
4. Term of loan	30 years	30 years
5. Monthly surcharge	1,320.00	1,764.00

Customer Surcharge
Main System

5/8" x 3/4"	\$ 4.55	\$ 6.00
3/4"	6.85	9.00
1"	11.25	15.00
1-1/2"	22.75	30.00
2"	36.40	48.00

Noel Heights Branch

All 3/4" services	\$ 4.25	\$ 6.00
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On July 27, 1982, Armstrong filed a Petition for Modification requesting that D.93271 be modified to permit Armstrong to borrow the additional \$60,350 and to increase the rate surcharge to repay the SDWBA loan. Notice of filing the Petition for Modification appeared in the Commission's Daily Calendar of July 28, 1982.

At the direction of the Commission, Armstrong sent a notice to each customer on July 28, 1982, advising them of the need for the increased SDWBA loan and rate surcharge. The notice provided for customers wishing to express their comments to write to an assigned staff accountant. No letters were received.

The lack of customer comments is interpreted as expressing the same sentiments which were expressed at the public meeting held on April 30, 1981, in Guerneville, California, to discuss A.60401. At the meeting, the customers overwhelmingly were in favor of improving the water quality and using SDWBA financing for the improvement project.

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 on customer bills to pay the loan.

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.

Armstrong should maintain 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 charged with payments of interest and principal 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 revised rate 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 on the SDWBA loan due in July 1983, it is necessary for Armstrong to place the revised surcharge in effect beginning November 1, 1982. This will enable the utility to meet the July 1983 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 \$240,000 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 \$21,167 per year. Approximately \$19,243 will be used to meet the loan payment. The remaining \$1,924, 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 establishment of a separate bank account by Greenbelt 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 \$21,167 and increase the water rates by approximately \$6.00 per month for an average residential customer with a 5/8-inch by 3/4-inch meter or 3/4-inch flat rate service. Water rates of residential or commercial customers with larger meter capacities would be 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. Armstrong 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 November 1, 1982, to meet the initial payment due in July 1983.

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 30 days after the date of filing, and shall apply only to service rendered on or after November 1, 1982.

2. Armstrong is authorized to borrow \$240,000 from the State of California to execute the proposed loan contract and to use the proceeds for the purposes specified in the application.

3. 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 (Safe Drinking Water Bond Act) 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 upfront cash payment moneys are collected from customers.

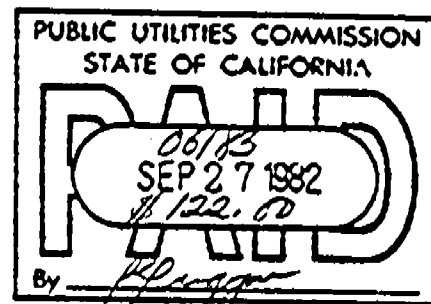
7. Armstrong shall file with the Commission a copy of the loan contract with DWR, and a copy of the agreement with the fiscal agent, within 30 days after these documents have been executed.

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.

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 \$122, set by PU Code Section 1904(b). In all other respects, this order becomes effective five days from today.

Dated SEP 22 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
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. 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.	\$.71
Over 400 cu. ft. per 100 cu. ft.92

Annual Service Charge:	<u>Per Meter</u>	<u>Per Year</u>	
	<u>Service Charge</u>	<u>Fire Protection</u>	<u>SWDBA* Surcharge</u>
		<u>Surcharge:</u>	
		<u>Revenue Loss</u>	
For 5/8 x 3/4-inch meter	\$ 61.80	\$ 2.56	\$ 72.00 (N)
For 3/4-inch meter	68.40	2.88	108.00
For 1-inch meter	96.00	3.96	180.00
For 1-1/2-inch meter	126.00	5.28	260.00
For 2-inch meter	168.00	6.84	576.00 (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 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)_____.

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

*SDWBA - Safe Drinking Water Bond Act

APPENDIX A
Schedule No. 1A
Page 2

ANNUAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The annual minimum charges apply 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 $1/365$ 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.

APPENDIX A
Schedule No. 2RA
Page 3

ANNUAL RESIDENTIAL FLAT RATE SERVICE

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

	Per Service Connection Per Year	
	<u>Charge</u>	<u>SDWBA* Surcharge</u>
For a single-family residential unit including premises	\$90.00	\$72.00(N)
For each additional single-family residential unit on the same premises and served from the same service connection	90.00	72.00(N)

*SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$90.00 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 (a)_____.

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

SPECIAL CONDITIONS

1. The above flat rates apply to service connections 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.

APPENDIX A
Schedule No. 2RA
Page 4

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 filed 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 $1/365$ 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)