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ORIGINAL

Decision No. 92061 , JUL 29 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)	
Russian River Water Company, Inc. to)	
borrow funds under the Safe Drinking)	Application No. 59322
Water Bond Act, and to add a surcharge)	(Filed December 6, 1979)
to water rates to repay the principal)	
and interest on such loan.)	

O P I N I O N

By this application, Russian River Water Company, Inc., (Russian River) a California corporation, requests authority to borrow \$559,104 under the California Safe Drinking Water Bond Act (SDWBA) of 1976, (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 of Application No. 59322 appeared on the Commission's Daily Calendar of December 10, 1979.

Russian River provides water service to two separate systems known as Russian River Terrace System (Terrace) and the Rio Dell System (Rio Dell). Terrace provides water service to approximately 412 residential customers located near the town of Forestville, Sonoma County. Rio Dell supplies water service to approximately 366 residential customers near the town of Forestville and adjacent to Terrace in Sonoma County. ✓

Terrace's supply of water is derived from three wells situated at the southerly bank of the Russian River. The water is pumped from the wells to storage tanks and repumped to higher tanks by means of booster pumps. The present total storage capacity is 74,400 gallons. The system has serious deficiencies including inadequate water storage, unreliable chlorination, unacceptable water quality and an inadequate distribution system. ✓

Rio Dell's primary supply of water is obtained from one well situated on the southerly gravel bar on the Russian River. A second auxiliary well is used during peak water consumption. Pressure in the distribution zones is maintained by two storage tanks. Total storage capacity is 38,000 gallons. The Rio Dell System has the same types of deficiencies as the Terrace System, except that its water is of better quality.

Russian River proposes to correct the deficiencies in the Terrace system by the installation of a 4,400 feet transmission main to neighboring Rio Dell to interconnect the two systems, install fail-safe chlorination and water-quality monitoring equipment, install a 100,000-gallon and a 30,000-gallon water storage tank and replace 16,100 feet of undersized and deteriorated distribution mains. ✓

Russian River proposes to correct the deficiencies in the Rio Dell system by installation of an auxiliary connection to the Forestville County Water District system, drilling an additional well, installation of a 100,000-gallon, and a 30,000-gallon storage tank, installation of fail-safe chlorination and water-quality monitoring equipment and replacement of 4,000 feet of distribution mains. ✓

The SDWBA provides, among other things, that water utilities whose systems fail 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 rate loans. The SDWBA charges the California Department of Health Service (DES) with the responsibility of analyzing the public health issues, and of making a determination of the specific plant improvements that are needed to meet water quality standards. DWR determines the need for financial assistance 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 instituted measures that will maximize water conservation. Under the provisions of Sections 816 through 851 of the

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Public Utilities Code, public utility water companies must obtain authorization from the California Public Utilities Commission (Commission) to enter into any long-term loan. Section 454 of that code requires a public utility water company to obtain Commission approval for rate increases.

The DHS has reviewed Russian River's loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By a letter dated February 5, 1979, DWR informed Russian River of its eligibility for a loan under the SDWBA.

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

Russian River Terrace

<u>Item</u>	<u>Cost</u>
1. Install 4,400 feet of transmission mains to neighboring Rio Dell and interconnect the two systems.	\$ 52,800
2. Install one 100,000-gallon and one 30,000-gallon storage tank.	65,150
3. Replace approximately 16,100 feet of undersized and deteriorated distribution mains	189,000
4. Purchase and install fail-safe chlorination and water quality monitoring equipment	3,200
5. Engineering and contingencies costs	<u>62,030</u>
Subtotal	372,180
6. DWR Administrative Fee - 3% of loan	<u>11,165</u>
Total Russian River Terrace	<u>\$383,345</u>

✓

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RIO DELL

<u>Item</u>	<u>Cost</u>
1. Drill an additional well.	\$ 8,100
2. Install a 100,000-gallon and a 30,000-gallon storage tank.	65,550
3. Replace approximately 4,000 feet of distribution mains.	59,200
4. Purchase and install failsafe chlorination and water quality monitoring equipment.	3,200
5. Install auxiliary connection to the Forestville County Water District system.	6,150
6. Engineering and contingencies costs.	<u>28,440</u>
Subtotal	170,640
7. DWR Administrative Fee - 3% of loan.	<u>5,119</u>
Total Rio Dell	<u>\$175,759</u>

✓

SUMMARY OF PROJECT COSTS

Russian River Terrace	\$383,345
Rio Dell	<u>175,759</u>
Total Estimated Project Costs	<u>\$559,104</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 5-1/2 percent per annum.

The revenue to meet the semiannual payments on the SDWBA loan will be obtained from surcharges on all metered and flat-rate services. The total amount of revenue from the proposed surcharge will exceed the loan repayment requirements by approximately 10 percent, 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 of the reserve fund, net of charges for the fiscal agent's services, will be added to the fund. Net earnings of the reserve 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 for the Terrace customers will be approximately \$28,922. The amount of the surcharge to repay principal, interest and necessary reserve on the loan will be in proportion to the capacity of each customer's meter or service connection. The following surcharge would produce approximately \$2,410 monthly.

RUSSIAN RIVER TERRACE
SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge^{2/}</u>
Residential ^{1/}	\$ 5.85
3/4-inch meter	8.75
1-inch meter	14.60
1-1/2-inch meter	29.25
2-inch meter	46.80

^{1/} 5/8" x 3/4" meter or flat rate services not larger than 3/4".

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

Terrace's present rates were authorized by Commission Decision No. 88514, dated February 22, 1978. The estimated annual gross revenues for 1980 at present rates exclusive of the surcharge will be about \$23,155. The \$28,922 yearly increase resulting from the SDWBA loan surcharge thus would increase Terrace's revenues by approximately 125%.

The annual requirements for the SDWBA debt service for the Rio Dell customers will be approximately \$13,286. The amount of the yearly surcharge to repay principal, interest and necessary reserve on the loan will be in direct proportion to the capacity of each customer's meter or service connection. Such a surcharge would produce approximately \$1,107 monthly.

RIO DELL
SURCHARGE SCHEDULE

<u>Size of Service or Meter</u>	<u>Monthly Surcharge^{2/}</u>
Residential ^{1/}	\$ 3.00
3/4-inch meter	4.55
1-inch meter	7.60
1-1/2 inch meter	15.15

^{1/} 5/8" x 3/4" meter or flat rate services not larger than 3/4".

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

Rio Dell's present rates were authorized by Commission Resolution No. 2616, effective March 18, 1980. The estimated annual gross revenues for 1980 at present rates exclusive of the surcharge will be about \$20,161. The \$13,286 yearly increase resulting from the SDWBA loan surcharge thus would increase Rio Dell's revenues by approximately 66%.

On January 10 and 11, 1980, staff accountants from the Commission's Revenue Requirements Division conducted public meetings at the Veterans Memorial Building, Guerneville, California, to explain the SDWBA loan program. The January 10, 1980 meeting was held for the Terrace customers, and the January 11, 1980 meeting for the Rio Dell customers.

Sixty-six Terrace customers were present at the start of their meeting, and 75 were in attendance at the conclusion. Also participating in the meeting were representatives from DHS, DWR, and Russian River. At the request of the Commission staff, Russian River had sent a letter to all of its customers notifying them of the meetings. Notices were also published in the local newspaper.

Only 21 persons attended a similar meeting for Rio Dell customers on January 11, 1980. The low turnout was attributed to a heavy rain storm that had continued throughout the entire day and during the meeting.

Customers attending the meetings expressed numerous complaints about water mains in constant need of repair, improper billing procedures, low pressures in some areas and other service deficiencies. To ascertain the customer sentiment regarding the SDWBA project, a vote was taken at the conclusion of each meeting. Rather than support or oppose the bond loan proposal, customers voted to organize themselves and hold their own meetings on the subject. Meetings conducted by the customers were held on February 2 and February 16, 1980. The February 2nd meeting was attended by about 150 customers. While the same complaints about poor service were repeated, those in attendance voted overwhelmingly to endorse the SDWBA loan and the related rate surcharges as the only practical method of obtaining improvements in existing water service.

During the meetings it developed that Russian River is experiencing difficulty in obtaining fee title or a long-term lease on the parcel of land on which it proposes to drill a new well, and on which an existing well is located. The authority granted by this decision shall not become effective until:

1. Russian River has ascertained that the land on which it proposes to drill the new well will produce water meeting drinking water standards.
2. Russian River has acquired fee title or has negotiated a lease for not less than 20 years for the land on which the wells will be located, or has obtained an order from a court having jurisdiction granting immediate possession under eminent domain proceedings.

3. Russian River has obtained all necessary permits and authorizations to enable it to drill a new well.

In authorizing the water company to enter into this loan, we underscore the fact that while it will result in increased reliability of service, better water pressure, and a better quality of water, these improvements will not correct all of the shortcomings of this water system. The SDWBA plant improvements are designed primarily to meet minimum safe drinking water standards. While the SDWBA loan will correct the principal deficiencies, many parts of the system will continue to be plagued by old and deteriorated mains, undersized mains and a shortage of valves to enable the operator to flush the lines properly. To correct all of these deficiencies and to provide adequate fire protection would require virtual rebuilding of the entire system at a cost that would not be financially feasible.

The staff has reviewed the application and concludes that the proposed SDWBA loan clearly is the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Russian River to enter into the proposed loan contract with DWR and to institute a surcharge on customer bills to repay the loan.

We recognize that the proposed increase in rates exceeds the guidelines for voluntary noninflationary prices promulgated by the President's Council on Wage and Price Stability. The increase, however, is in keeping with the exceptions noted in Section 705-C-8(d) (iii) of the Council's guidelines, which section indicates that exceptions to the guidelines are warranted if the guidelines would impose extreme hardships and gross inequities on utilities.

While Section 705-C-8 of the Council's guidelines applies to electric and gas utilities, equity dictates that the guidelines likewise should be applied to water utilities that qualify for loans

provided by the SDWBA. Circumstances which constitute a hardship include inadequate cash flow. Under existing rates, Russian River would not have sufficient cash flow to meet the principal and interest payments on the proposed loan from DWR. The rate surcharge, therefore, is in accordance with the guideline exceptions of the President's Council on Wage and Price Stability.

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.

Russian River should establish separate balancing accounts for Terrace and Rio Dell to be credited with revenue collected through the surcharge and with investment tax credits arising from the plant reconstruction program as they are utilized. Each balancing account should be charged with payments of interest and principal on the loan. The surcharges should be adjusted periodically to reflect changes in the number of connections, and resulting overages or shortages in the balancing account. These changes in surcharge amounts may be made through the advice letter procedure.

It is appropriate to emphasize that the surcharges authorized herein 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 surcharges to produce enough revenue to meet the initial payment of principal and interest on the SDWBA loan due in December 31, 1981, it is necessary for Russian River to place the surcharges in effect beginning October 1, 1980. This will enable Russian River to accumulate initially a small surplus in the balancing account to compensate for the time lag between billing and collection dates.

Findings of Fact

1. The proposed water system improvements are needed to produce a healthful, reliable water supply.

2. The SDWEA loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring necessary capital. The plant reconstruction program will cost an estimated \$559,104 including a three percent 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 surcharges will generate approximately \$42,208 per year. Approximately \$38,264 will be used to meet the loan payments. The remaining \$3,944 which is approximately ten percent of the loan payments will be deposited with the fiscal agent in order to accumulate a reserve equal to two semiannual loan payments over a 10-year period.

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

6. Russian River Water Company has two separate systems. Each system has been allocated a share of the amount required to repay the loan, based on the percentage of total construction dollars expended on each system.

7. The rate surcharges will increase Terrace's and Rio Dell's annual gross revenues by approximately \$28,922 and \$13,286, respectively, and increase the water rates by approximately \$5.85 and \$3.00 monthly for an average residential customer of the Terrace and Rio Dell systems, respectively.

8. 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.

9. These surcharges should be placed in effect beginning October 1, 1980 so as to accumulate funds to make the initial principal and interest payment due in December 31, 1981.

10. The rate surcharges which are established to repay the SDWBA loan should last as long as the loan. The surcharges should not be intermingled with other utility charges.

11. The utility plant financed through this SDWBA loan should be permanently excluded from rate base, as the customers should not be required to pay more than once for the utility plant.

12. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility's owners. Russian River should establish separate balancing accounts for Terrace and Rio Dell to be credited with revenue collected through the surcharge, and with investment tax credits resulting from the plant construction, as they are utilized. The balancing accounts should be reduced by payments of principal and interest on the loan. The rate surcharges should be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

Conclusions of Law

1. 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

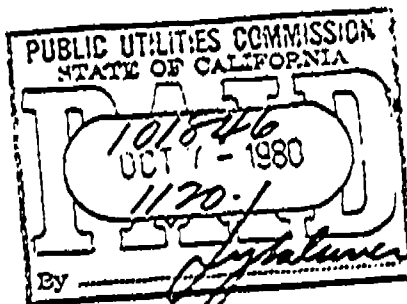
IT IS ORDERED that:

1. On or after the effective date of this order, Russian River Water Company, Inc., is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 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 October 1, 1980.
2. Russian River Water Company, Inc., is authorized to borrow \$559,104 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.
3. Russian River Water Company, Inc., shall establish and maintain separate balancing accounts for the Russian River Terrace System and the Rio Dell System in which shall be recorded all bill surcharge revenue and the value of investment tax credits on the plant, as utilized. The balancing accounts shall be reduced by payments of principal and interest to the State Department of Water Resources. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Russian River Water Company, Inc.
4. As a condition of the rate increase granted herein, Russian River Water Company, Inc., shall be responsible for refunding or applying on behalf of the 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.

6. This order will not be effective until:
- a. Russian River Water Company, Inc., has ascertained that the land on which it proposes to drill the new well will produce water meeting drinking water standards.
 - b. Russian River Water Company, Inc., has acquired fee title or has negotiated a lease for not less than 20 years for the land on which the wells will be located or has obtained an order from a court having jurisdiction granting immediate possession under eminent domain proceedings.
 - c. Russian River Water Company, Inc., has obtained all necessary permits and authorizations to enable it to drill a new well.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Russian River Water Company, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,120. In all other respects, the effective date of this order shall be five days after the date hereof.

Dated OCT 29 1980 , at San Francisco, California.



John E. Bryson
President

Dean L. Sherman

Hubert W. Hooper

Samuel J. Travis

Clare J. DeWitt
Commissioners

APPENDIX A
Sheet 1 of 4

RUSSIAN RIVER WATER COMPANY, INC.
Russian River Terrace District

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated communities of Russian River Terrace, Hollydale Park, and vicinity, Sonoma County.

RATES

Service Charge:	<u>Per Meter</u>	<u>Per Month</u>	(N)
	Charge :	Surcharge	
For 5/8 x 3/4-inch meter	\$ 3.25	\$ 5.85	
For 3/4-inch meter	3.60	8.75	
For 1-inch meter	4.90	14.60	
For 1-1/2-inch meter	6.50	29.25	
For 2-inch meter	8.80	46.80	(N)

Quantity Rates:

Per 100 cu.ft. \$ 0.50

The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

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 authorized by Decision No. _____ (N)

(a) Insert Decision Number in Application No. 59322 before filing tariff.

APPENDIX A

Sheet 2 of 4

RUSSIAN RIVER WATER COMPANY, INC.
Russian River Terrace District

Schedule No. 2

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate service furnished to residential customers.

TERRITORY

The unincorporated communities of Russian River Terrace, Hollydale Park, and vicinity, Sonoma County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>		(N)
	<u>Charge : Surcharge</u>		
For a single-family residence including premises	\$ 5.25	\$ 5.85	(N)

SPECIAL CONDITIONS

1. Service under this schedule will be furnished only on a continuous basis throughout the year.
2. All annual service not covered by the above classification will be furnished on a metered basis.
3. A meter may be installed only at the option of the utility. In the event a meter is installed, service thereafter will be furnished on the basis of Schedule No. 1, General Metered Service.
4. The above flat rates apply to a service connection not larger than 3/4 inch in diameter. (N)

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$5.25 per 3/4-inch service connection, per month. 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 No. _____ (N)

- (a) Insert Decision Number in Application No. 59322 before filing tariff.

APPENDIX A

Sheet 3 of 4

RUSSIAN RIVER WATER COMPANY, INC.
Rio Dell District

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The vicinity of Rio Dell, Sonoma County.

RATES

Minimum Charge:	<u>Per Meter</u>	<u>Per Month</u>	(N)
	Charge :	Surcharge	
For 5/8 x 3/4-inch meter	\$ 5.50	\$ 3.00	 (N)
For 3/4-inch meter	7.50	4.55	
For 1-inch meter	9.00	7.60	
For 1-1/2-inch meter	13.00	15.15	

The Minimum Charge will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Rates.

Quantity Rates:	<u>Per Meter</u>
	Per Month
First 400 cu.ft., or less	\$ 5.50
Over 400 cu.ft., per 100 cu.ft.	0.60

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 authorized by Decision No. _____.

(a) Insert Decision Number in Application No. 59322 before filing tariff.

APPENDIX A

Sheet 4 of 4

RUSSIAN RIVER WATER COMPANY, INC.
Rio Dell District

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to water service furnished at flat rates.

TERRITORY

The vicinity of Rio Dell, Sonoma County.

RATE

	Per Service Connection	(N)
	<u>Per Month</u>	
	Charge : Surcharge	
For each residence receiving continuous service throughout the calendar year, payable in advance	\$ 7.00 \$ 3.00	(N)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than 3/4 inch in diameter. (N)
2. A meter may be installed only at the option of the utility. In the event a meter is installed, service thereafter will be furnished on the basis of Schedule No. 1, General Metered Service. (N)

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$7.00 per 3/4-inch service connection, per month. The total monthly surcharge must be identified on each bill. The surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision No. _____ (N)

- (a) Insert Decision Number in Application No. 59322 before filing tariff.