

RR/EYS/RZE/WPSC

Decision 93271 JUL 7 1981

ORIGINAL

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 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 60401
 (Filed March 27, 1981)

O P I N I O N

By this application, Armstrong Valley Water Company (Armstrong) requests authority to borrow \$179,650 for 30 years, at an interest rate of 7% per annum under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (Water Code Section 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 April 1, 1981.

The utility provides water to the unincorporated community of Armstrong Woods Valley, Lone Mountain Subdivision, located 1-1/2 miles north of Guerneville and Noel Heights Subdivision located on the east side of State Highway 116, approximately 2-1/2 miles southeasterly of Guerneville, Sonoma county. The service connections consist of 48 flat rate and 236 metered services.

Armstrong serves both the main system along Armstrong Woods Road and the Noel Heights area. The main system currently has one inadequate source of supply since the second well began producing rocks and mud and was ordered out of service by health officials. A proposed new 150-foot well with 12-inch casing is to be equipped with an existing pump. The main system also has extensive deterioration and, in many instances, undersized galvanized mains. Approximately 1,200 linear feet of 2-inch PVC main, 5,750 linear feet of 4-inch PVC main, and 1,450 linear feet of 6-inch PVC main are proposed to replace the remainder of old galvanized pipe.

The Noel Heights system currently has only one source of supply and a deteriorated redwood storage tank which is badly leaking. A standby 2 hp submersible pump and motor is proposed for the existing well. Immediately above the existing tank site, a 20,000-gallon storage tank is proposed which will be connected to the system by a new 2-inch PVC main approximately 520 feet in length.

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 the California Department of Water Resources (DWR) for low-interest rate

loans. The California Department of Health Services (DHS) is required by SDWBA to analyze the public health issue, 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 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 DHS has reviewed the Armstrong loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated January 9, 1981, DWR informed Armstrong of its eligibility for a loan under the SDWBA.

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

<u>Description of Item</u>	<u>Estimated Cost</u>
<u>MAIN SYSTEM</u>	
1. Drill new well, 150-foot, 12-inch diameter, in main system	\$ 13,000
2. Install existing submersible pump and controls	300
3. Install approximately 1,450 L.F. of 6-inch main in main system	21,750
4. Install approximately 5,000 L.F. of 4-inch main in main system	60,000
5. Install approximately 1,200 L.F. of 2-inch main in main system	12,000
6. Install approximately 750 L.F. of 4-inch main in steep terrain in main system	15,000
	<u>\$122,050</u>
Engineering Fees	25,510
DWR Administrative Fee 3%	4,440
Subtotal	<u>\$152,000</u>

NOEL HEIGHTS SUBDIVISION

7. Install 20,000-gallon storage tank at Noel Heights	16,000
8. Install approximately 520 L.F. of 2-inch main at Noel Heights	5,200
9. Install submersible pump and motor at Noel Heights Well	1,000
	<u>\$ 22,200</u>
Engineering Fees	4,640
DWR Administrative Fee 3%	810
	<u>\$ 27,650</u>
TOTAL	<u>\$179,650</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 7% 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%. 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 will be approximately \$15,844. 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 meter or service connection. The following surcharge would produce approximately \$1,320 per month, requiring an increase in water rates of approximately \$4.55 per month in the Main area and \$4.25 per month in the Noel Heights Subdivision.

SURCHARGE SCHEDULE

Main System

<u>Meter Size</u>	<u>Annual Surcharge</u>
5/8" by 3/4"	\$ 54.60
3/4"	82.20
1"	136.80
1-1/2"	273.00
2"	436.80

Noel Heights

All Residential Services \$ 51.00

Armstrong's present rates were authorized by Commission Resolution L-213, effective July 1, 1980, for the Armstrong Woods Valley, Lone Mountain Subdivision, and Resolution W-2578, effective November 20, 1979, for the Noel Heights Subdivision.

The estimated annual gross revenues for 1981 at present rates will be about \$38,260. The \$15,844 yearly increase under the SDWBA loan surcharge thus would increase Armstrong's revenues by approximately 41.4%.

On the evening of April 30, 1981, financial analysts from the Commission's Revenue Requirements Division conducted a public meeting at the Guerneville Elementary School, Guerneville, California to explain the SDWBA loan program. The meeting was attended by 20 customers of the utility. Also participating in the meeting were representatives from DHS, DWR and Robert Young representing the consulting engineering firm of Raymond Vail and Associates. At the direction of the Commission, Armstrong 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 DHS representative presented the technical portion of the meeting by explaining Armstrong's present water quality problem areas and the plant improvements needed to correct these deficiencies. He also outlined the regular DHS inspection and testing requirements conducted by its field staff and Armstrong. He summarized the deficiencies identified in the DHS Engineering Report dated

August 1980. Specifically, the present undersized and older portions of the Main area distribution system are in need of replacement, along with drilling a new well to provide a second source of water supply. In the Noel Heights area, he identified the need to replace the existing storage tank and a portion of the distribution system.

Young then described each portion of the project and its respective cost. He went on to outline, through use of a map of the service area, the proposed improvements. Customers were then provided the opportunity to question the DHS representative and the utility's consulting engineer. The customers agreed there was a need to improve the water quality but asked for guarantees for good water service.

Young and the DHS representative said no absolute guarantees are possible but assured the customers that the plant improvements would result in a better water system.

The remaining portion of the meeting was devoted to explaining the SDWBA financing program and the costs to the rate-payers. The DWR representative gave a brief history of the program and described in detail how Armstrong qualified for the loan and the loan administration procedures. The CPUC representative presented the proposed SDWBA surcharge and described the special accounting and ratemaking procedures. He made several specific references to the

fact that Armstrong could later file for a general rate increase if the cost of operating the utility warranted such a request. He went into detail to explain that the SDWBA surcharge money would not be used to pay for normal water rate charges.

Another question and answer period followed to provide additional customer participation. Questions were asked about the surcharge. The CPUC representative gave a detailed summary of the amounts, collection, deposit, and repayment system. Several customers spoke in favor of the project as a sound investment for the future.

At the conclusion of the meeting, customers were asked for their sentiments. By a show of hands, they overwhelmingly expressed their opinion that better quality water is needed and they were in favor of the SDWBA method of financing the project.

The CPUC representative reviewed the application and concluded that the proposed plant improvements will substantially improve service. The proposed SDWBA loan clearly is the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Armstrong to enter into the proposed loan contract with DWR and to institute a surcharge on customers' bills to pay the loan.

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^{1/} 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.

Armstrong should establish a balancing account to be credited with revenue collected through the surcharge and with investment tax credits arising from the plant reconstruction program as they are utilized. The balancing account should be charged with payments of interest and principal on the loan. The surcharge should

^{1/} Decision 88973, dated June 13, 1978 (Mimeo)

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 initial payment on the SDWBA loan due in July 1982, it is necessary for Armstrong to place the surcharge in effect beginning July 1, 1982. This will enable the utility to meet the July interest only 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 \$179,650 which includes a 3% administrative charge by DWR.

3. The proposed borrowing is for proper purposes. 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. These purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

4. The proposed surcharge will generate approximately \$15,844 per year. Approximately \$14,403 will be used to meet the loan payments. The remaining \$1,441, 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.

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

6. The rate surcharge will increase Armstrong's annual gross revenues by approximately \$15,844 and increase the water rates by approximately \$4.55 per month in the Main area and \$4.25 per month in the Noel Heights Subdivision.

7. The rate surcharge which is established to repay the SDWBA loan should last as long as the loan. The surcharge would 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. Armstrong should establish a balancing account to be credited with revenue collected through the surcharge, 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. The rate surcharge would be adjusted periodically to reflect changes in the number of connections and resulting overages or shortages in the balancing account.

10. 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.

11. This surcharge should be placed in effect beginning July 1, 1982 to meet the initial payment due in July 1982.

Conclusions of Law

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

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, Armstrong Valley Water Company 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 thirty days after the date of filing, and shall apply only to service rendered on or after July 1, 1982.

2. Armstrong Valley Water Company is authorized to borrow \$179,650 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

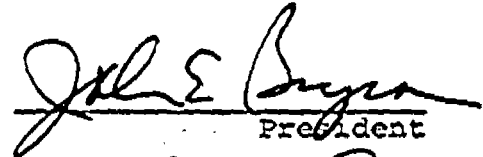
3. Armstrong Valley Water Company shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and the value of investment tax credits on the plant, as used. The balancing account shall be reduced by payment of principal and interest to the State Department of Water Resources. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Armstrong Valley Water Company.

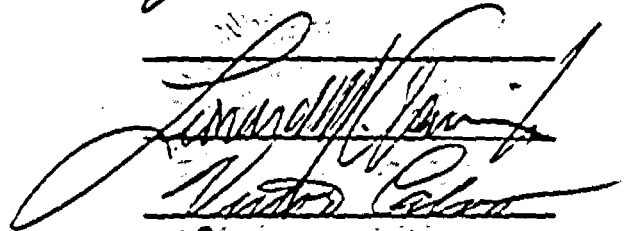
4. As a condition of the rate increase granted, Armstrong Valley Water Company shall be responsible for refunding or applying on behalf of its customers any surplus accrued in the balancing account when ordered by the Commission.

5. Plant financed through the Safe Drinking Water Bond Act loan shall be permanently excluded from rate base for ratemaking purposes.

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 \$360, set by PU Code Section 1904(b). In all other respects, this order becomes effective 30 days from today.

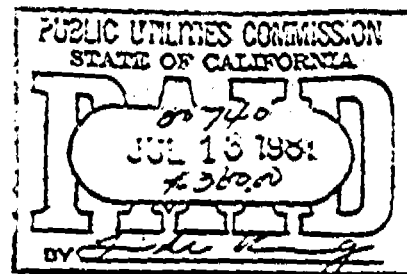
Dated JUL 7 1981, at San Francisco, California.


President


Vice President


Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A
Schedule No. 1A

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>
	Service Fire Protection	SWDBA*
	<u>Charge</u>	<u>Surcharge</u>
	Surcharge:	
	Revenue Loss	
For 5/8 x 3/4-inch meter.....	\$ 61.80	\$ 2.56
For 3/4-inch meter.....	68.40	2.88
For 1-inch meter.....	96.00	3.96
For 1 1/2-inch meter.....	126.00	5.28
For 2-inch meter.....	168.00	6.84
		\$ 54.60(N)
		82.20
		136.80
		273.00
		436.80(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 93271.

- (a) Insert Decision number in Application 60401 before filing tariff.

*SDWBA - Safe Drinking Water Bond Act

APPENDIX A
Schedule No. 1A

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 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

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

	<u>Per Service Connection Per Year</u>	
	<u>Charge</u>	<u>SDWBA* Surcharge</u>
For a single-family residential unit including premises	\$90.00	\$51.00(N)
For each additional single-family residential unit on the same premises and served from the same service connection	90.00	\$51.50(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 93271.

(a) Insert Decision number in Application 60401 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

ANNUAL RESIDENTIAL FLAT RATE SERVICE

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 $1/365$ 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)