RR/HA/WPS/WPSC

Decision 93594 OCT 6 1981 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Camp Meeker Water System, Inc., dba a California Corporation, 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 60478 (Filed April 21, 1981)

O P I N I O N

By this application, Camp Meeker Water System, Inc. (Camp Meeker) requests authority to borrow $247,000 for 30 years, at an interest rate of 6.5% per annum under the California Safe Drinking Water Bond Act of 1976 (SDWBA) (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 appeared on the Commission's Daily Calendar of April 27, 1981. Also, notice was provided to all customers.

The utility provides water to Camp Meeker, an unincorporated community in Sonoma County. The service connections consist of 357 flat rate services.

Camp Meeker's present water supply is derived from springs, surface water diversion, and water wells in the Camp Meeker area. Water flows by gravity from the spring sources or is pumped from the wells. Treatment consists of hypochlorination for bacteriological control. The system has serious deficiencies which include lack of sufficient water during the dry summer months, excessive turbidity during periods of heavy rainfall, unreliable methods of disinfection, and deteriorated pipes and storage tanks which could cause prolonged interruptions of service in the event of failure.

Camp Meeker proposes to correct the water supply and storage deficiencies by the development of additional wells, installation of electric hypochlorinators at each surface water supply source, construction of a water filtration plant, reconstruction of a pumping station, and installation of three new storage tanks. In addition, the Department of Water Resources's (DWR) loan authorization added a requirement that water meters be installed on all services as an inducement to conserve water. Much of the water distribution system also is badly in need of replacement. The utility's original plan did not provide for correction of the distribution system deficiencies with the proceeds of the SDWBA loan. Therefore, even if the company is successful in developing new wells and storage facilities, its customers still will be receiving water service through old, leaky mains.

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 DWR for low-interest rate loans. The California Department of Health Services (DHS) is required by SDWBA to analyze the public health issues 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 the California Public Utilities Commission (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 Camp Meeker loan proposal and has set forth a summary of construction to be undertaken with the loan proceeds. By letter dated November 26, 1980, DWR informed Camp Meeker of its eligibility for a loan under the SDWBA.

The items of construction and estimated costs approved by DWR at that time are detailed as follows:

	Description of Item	Estimated Cost
1.	Chlorination facilities	$16,300
2.	Water filtration plant	28,000
3.	Booster pumps (2)	11,400
4.	Storage tanks (3)	34,200
5.	Wells	23,400
6.	Well stations (3)	17,200
7.	Land rights	10,000
8.	Meters	74,600
9.	Engineering & Contingencies	36,500
10.	D.W.R. Administrative Fee	7,700
	Total Estimated Project Costs	$259,300

The principal amount of the loan was subsequently reduced by DWR from $259,300 to $247,000. The proposed loan will provide for a 30-year repayment schedule with equal semiannual payments of principal and interest, at an interest rate of 6-1/2% per annum.

The revenue to meet the semiannual payments on the SDWBA loan will be obtained from surcharges on all customer 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 on funds deposited with the fiscal agent, net of charges for the fiscal agent's services, will be added to the fund. Net earnings of the 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 $20,700. 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 service connection. The following surcharge would produce approximately $1,785 per month, requiring an increase in water rates of approximatey $5.00 per month for each residential customer.

SURCHARGE SCHEDULE

Metered Service	Monthly Surcharge 1/	Annual Surcharge 1/
5/8" by 3/4" Meter	$5.00	$ 60.00
3/4" Meter	7.50	90.00
1" Meter	12.50	150.00
Flat Rate Service	**Monthly Surcharge 1/**	**Annual Surcharge 1/**
3/4" Service	$5.00	$ 60.00

1/ This surcharge is in addition to regular charges and temporary surcharges for water service.

Camp Meeker's present rates were authorized by Commission Decision (D.) 92450, dated December 2, 1980.

The estimated annual gross revenues for 1981 at present rates will be about $34,135. The $20,700 yearly increase under the SDWBA loan surcharge thus would increase Camp Meeker's revenues by approximately 61%.

On the evening of May 13, 1981, a financial examiner from the Commission's Revenue Requirements Division conducted a public meeting at the Anderson Hall, Camp Meeker, California to explain the SDWBA loan program. The meeting was attended by 96 customers of the utility. Also participating in the meeting were representatives from DHS, DWR and a member of the consulting engineering firm of Brelje and Race. At the direction of the Commission, Camp Meeker 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 conducted the first phase of the meeting by explaining Camp Meeker'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 Camp Meeker. He summarized the deficiencies identified in the DHS Engineering Report dated July 1979. Specifically, he described Camp Meeker's needs for better water quality, system reliability, and an assured year around water supply.

The consulting engineer then described the SDWBA projects that were planned to solve Camp Meeker's water supply and storage problems. To improve the water quality he recommended installing electrically operated hydrochlorinators at each tank which receives water directly from a surface source. He also proposed the installation of a filtration plant at the Tower Tanks to reduce water turbidity problems. To obtain better system reliability the pump at the Tower Booster station would be replaced and a new pump would be installed at the Fern Tanks which would enable the treated water from the Tower Tanks to be transferred to the Fern and Baumert Tanks. The project would also include three new 10,000-gallon tanks, two to replace existing capacity at Gilson and Fern, and a new water storage tank at Tower.

Development of an assured year around water supply is the most important part of the SDWBA project. The consulting engineer stated that additional water supply sources of 15 gpm are needed during the dry portions of the year to attain the goal of a reliable year around supply.

He described the economic impossibility of obtaining water from the Russian River, the high cost of building a reservoir in Baumert Canyon, and his recommendation to drill new wells instead.

The consulting engineer plans to drill five test wells. If 15 gpm or more water is obtained the supply problem is solved. If the initial five test wells prove unsatisfactory, the consulting engineer recommends that five more test wells be drilled. In event that the wells do not produce a sufficient quantity of water a reservoir and filtration plant will be considered.

The remaining portion of the meeting was devoted to explaining the SDWBA financing procedures, DWR's metering requirements and the costs to the ratepayers.

The DWR representative gave a brief history of the program and described in detail how Camp Meeker qualified for the loan and the loan administration procedures. He explained the background of DWR's metering policy and the rationale for the requirement being applied to the Camp Meeker system.

The financial examiner explained the proposed SDWBA surcharge and described the special accounting and ratemaking procedures. He also pointed out that the SDWBA rate surcharge would be in addition to normal charges for water service and would not preclude future requests for rate increases to cover increases in expenses.

Questions from the customers centered on three issues:

1. Proposed sitings for the new wells. Several proposed sites were near Dutch Bill Creek which has been subject to sewer spills from the Occidental Sewage Treatment Plant. The DHS representative assured the audience that the deep wells provide a natural filter and would produce water of acceptable quality.

2. Additional storage, either through construction of a reservoir in Baumert Gulch or lease of the "Stock Pond" reservoir as alternatives to additional wells.

   The utility's consulting engineer explained that he had eliminated Baumert Gulch from consideration because the topography is such that the cost of constructing a new reservoir at that site would be prohibitive.

3. Metering of the water system. Numerous objections were voiced to the DWR plan to spend $74,600 to meter the water system. Several customers pointed out that none of the SDWBA funds were set aside to replace distribution mains, many of which are old and leaking. Other customers identified storage tanks which are very old and rusty. The entire audience was in favor of using the money allocated for meters to correct some of the distribution system deficiencies.

At the conclusion of the meeting, customers were asked for their sentiments. By a show of hands, they overwhelmingly expressed their support for a SDWBA loan and rate surcharge to improve the water system at Camp Meeker.

In view of the strong opposition of the customers to DWR plans for metering the system, the DWR representative agreed to recommend that the meter funds be used to replace leaking distribution mains instead. By letter dated August 31, 1981 DWR informed the Commission that it would remove the meters as a condition for making the SDWBA loan to Camp Meeker, and that it would permit the meter funds to be used instead to correct distribution system deficiencies. The amount of the loan was reduced from $259,300 to $247,000.

Subsequent to the public meeting the Commission received a number of individual letters from Camp Meeker residents and a petition from the Camp Meeker Home Owners Association signed by 102 alledged customers pointing out that the possibility of leasing or purchasing the "Stock Pond" reservoir as an alternative to drilling more wells had not been adequately addressed either by DHS or by the utility's consulting engineer. The Stock Pond is a reservoir at Baumert Gulch owned by the Chenoweth family, which is not a part of the Camp Meeker Water System.

The Commission staff immediately requested the DHS to provide it with an economic feasibility study of the Stock Pond vis-a-vis drilling more wells. In a report accompanying a letter dated August 13, 1981, DHS concluded that:

> "Without considering costs of acquiring (or leasing) land and property rights, the capital costs of the well project appear to be about one-half those of the Stock Pond alternative, with operational costs about one-third the operational costs of the treatment plant. Addition of a granular activated carbon column to the treatment plant, if desired for THM control, would increase the treatment plant capital costs to about 2-1/2 times the well projects costs, with operation and maintenance costs eight times greater than the well project."

After reviewing the DHS report the utility's consulting engineer in a letter dated August 14, 1981, stated that he concurred with the DHS conclusion that the well project would be substantially less costly than the Stock Pond.

The DHS is charged with responsibility for the engineering aspects of SDWBA projects. We therefore accept the DHS engineer's conclusion that despite the uncertainties attendant on drilling new wells, this alternative is preferable to use of the Stock Pond. To reduce the risks to a minimum we shall require that the plant improvement program be undertaken in two phases, i.e. that the utility first develop adequate new water supplies before proceeding with the remainder of the plant improvement program. If the new wells produce an adequate water supply, the proposed plant improvement program will substantially improve service.

It is essential that the utility maintain accurate records of water production from each source, on a continuing basis. The order in this proceeding shall so provide.

The SDWBA loan clearly is the most feasible and economical method of financing these improvements. The Commission, therefore, will authorize Camp Meeker to enter into a loan contract with DWR and to institute a surcharge on customers' bills to repay the loan.

Camp Meeker should establish a separate bank account in which to enter all progress payments from DWR and all disbursements to suppliers.

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 Company1/ 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

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1/ D.88973, dated June 13, 1978 (mimeo).

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.

Camp Meeker should establish a balancing account to be credited with revenue collected through the surcharge, with interest earned on funds deposited with the fiscal agent and with investment tax credits arising from the plant reconstruction program as they are used. Surcharge revenues should be deposited with the fiscal agent within 30 days after collection. The balancing account should be charged with payments of interest and principal on the loan, and with any charges for the services of the fiscal agent. 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 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 Camp Meeker to place the surcharge in effect beginning January 1, 1982. This will enable the utility to accumulate initially a small surplus in the balancing account to compensate for the time lag between billing and collection dates and to meet DWR's requirement that a 10% reserve fund be established.

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 financing the projects. The plant reconstruction program will cost an estimated $247,000 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 $20,700 per year. Approximately $18,816 will be used to meet the loan payments. The remaining $1,884, 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. Deposits, of the SDWBA surcharge money 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 rate surcharge will increase Camp Meeker's annual gross revenues by approximately $20,700 and increase the water rates by approximately $5.00 per month for an average residential customer.

7. The rate surcharge which is established to repay the SDWBA loan should last as long as the loan. The surcharge should 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. Camp Meeker should establish a balancing account to be credited with revenue collected through the surcharge, with interest earned

on funds deposited with the fiscal agent, 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 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.

10. Camp Meeker should establish a separate bank account in which to record all progress payments from DWR and all disbursements to suppliers.

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 January 1, 1982, to accumulate funds to make the initial payment due in July 1982.

13. Both applicant's consulting engineer and the DHS engineer agree that drilling new wells is preferable from the viewpoint of water quality and operating costs to relying on surface water supplies with additional storage.

14. The plant construction program should be divided into two phases. The first phase should be limited to the location of additional water supplies. The second phase, which would consist of the remainder of the improvement program, should not be started until adequate new water supplies have been located.

15. Camp Meeker should meter each well, and should take regular measurements of water produced from all other sources. Reports of water production during the dry season should be filed with the Commisson.

16. The proposal to meter the entire system does not meet the requirements of PU Code Section 781.

17. DWR on August 31, 1981, approved the utility's request to use $74,675, which included a 3% administrative charge, that was originally allotted to meter the system, be used for improvements to the water distribution system.

Conclusions of Law

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

2. A formal hearing is not necessary.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Camp Meeker Water System, Inc. (Camp Meeker) 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 five days after the date of filing, and shall apply only to service rendered on or after January 1, 1982.

2. Camp Meeker is authorized to borrow $247,000 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in the application.

3. Camp Meeker shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on funds on deposit with the fiscal agent and the value of investment tax credits on the plant, as used. The balancing account shall be reduced by payments of principal and interest to the State Department of Water Resources and by any charges for the services of the fiscal agent. A separate statement of the surcharge shall appear on each customer's water bill issued by Camp Meeker.

4. As a condition of the rate increase granted, Camp Meeker 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.

6. Camp Meeker shall divide its plant improvement program into two phases. Phase Two shall not be commenced until Phase One has been completed.

> Phase One. Drilling of test wells. Camp Meeker Water System Inc. is authorized to draw down loan funds to complete its program for drilling test wells.
>
> Phase Two. Remainder of Plant Improvement Program. If an adequate water supply is discovered through test well drillings in Phase One, applicant may proceed with the remainder of its plant improvement program in Phase Two. Before proceeding with the balance of the plant improvement program the utility shall file a report of the results of the test well drillings with the Commission. These results shall be open for inspection by utility customers. If an adequate water supply is not discovered through this test well program, the remainder of the project shall not be started until a satisfactory alternative has been approved by the Department of Health Services and the Department of Water Resources.

7. Camp Meeker shall meter each well and shall take regular measurements of water produced from all other sources. A record of measurements of water production from each source, taken at least

once per week during the months of August, September, and October, shall be filed with the Commission not later than 15 days after the close of the month in which the measurements were taken. The record of water production shall be made available for inspection by water utility customers upon request. The Executive Director of the Commission may authorize the discontinuance of such monthly filings when he is satisfied that they no longer are needed.

8. To assure repayment of the loan, applicant shall deposit all surcharge revenues collected with the Fiscal Agent approved by the State Department of Water Resources. Such deposits shall be made within 30 days after the surcharge moneys are collected from customers.

9. That the $74,675 allotted by the Department of Water Resources in their revised loan authorization of August 31, 1981, be used to improve the water distribution system.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when Camp Meeker has paid $494, set by PU Code Section 1904(b). In all other respects, this order becomes effective 30 days from today.

Dated OCT 6 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
01802
OCT 6 1981
$494.00
By [illegible]

I certify that this decision was approved by the above Commissioners today.

Joseph E. Bodovitz

APPENDIX A
Sheet 1

Schedule 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Camp Meeker and vicinity, Sonoma County.

RATES

	Per Meter Per Month
Monthly Quantity Rates:	
All water, per 100 cu.ft.	$ 1.00

Service Charge:	Per Meter Service Charge	Per Month Surcharge*	
For 5/8 x 3/4-inch meter	$ 6.00	$ 5.00	N
For 3/4-inch meter	6.60	7.50	
For 1-inch meter	9.00	12.50	N

The Service Charge applies to all metered service connections. To it is added the charge for water used during the month at Quantity Rates.

*SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular metered water bill. The total 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 . N

(a) Insert Decision number in Application 60478 before filing tariff.

*SDWBA - Safe Drinking Water Bond Act.

APPENDIX A
Sheet 2

Schedule 1A

ANNUAL METERED SERVICE

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 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 calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. A non-permanent 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 January 1, service will not be restored until the total annual charge has been paid.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, 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.

APPENDIX A
Sheet 3

Schedule 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Camp Meeker and vicinity, Sonoma County.

RATES

	Per Service Connection Per Year		
	Charge	Surcharge*	N
For a single-family residential unit, including premises........................	$ 93.60	$ 60.00	
For each additional unit on the same premises....................................	72.00	46.15	
			N

*SDWBA SURCHARGE

NOTE: This surcharge is in addition to the regular charge of $93.60 per 3/4-inch 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. __a__.

(a) Insert Decision number in Application 60478 before filing tariff.

SPECIAL CONDITIONS

1. The above flat rate charges 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 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
Sheet 4

Schedule 2AR
Sheet 2 of 2

ANNUAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Cont'd)

3. The annual flat rate charge applies to service during the 12-month period commencing January 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 calendar 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 non-permanent 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 January 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 any year, 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 Appendix A)