

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-4011  
December 20, 1996

R E S O L U T I O N

(RES. W-4011), MOUNTAIN CHARLIE WATER WORKS, INC.  
REQUEST FOR AUTHORITY TO CONSTRUCT PROPOSED PLANT  
IMPROVEMENTS, TO ENTER INTO A \$815,945 LOAN WITH THE  
CALIFORNIA DEPARTMENT OF WATER RESOURCES (DWR) THROUGH  
DWR'S SAFE DRINKING WATER BOND ACT LOAN PROGRAM, AND TO  
IMPLEMENT A SURCHARGE TO PROVIDE RECOVERY FOR THE  
PRINCIPAL AND INTEREST PAYMENTS ON THE LOAN.

BY ADVICE LETTER NUMBER 17, DATED NOVEMBER 22, 1996.

SUMMARY

This order authorizes Mountain Charlie Water Works, Inc. (Mountain Charlie), a Class D water utility, to enter into a loan agreement with the Department of Water Resources for a Safe Drinking Water Bond Act (SDWBA) loan of \$815,945, to construct proposed plant improvements, and to implement a monthly surcharge and service fees on customers to amortize the principal and interest on the SDWBA loan. The surcharge is to be adjusted annually by advice letter, and amounts collected are to be tracked and accounted for separately from other revenues. The proceeds from the SDWBA loan will be used for approximately \$777,090 in improvements.

Mountain Charlie estimates the revenue impact of this filing to be an annual increase of \$42,239.80 by means of a surcharge.

BACKGROUND

By Resolution W-3935, dated August 11, 1995, the Commission approved John W. Richardson (Richardson) as the court appointed receiver for Mountain Charlie. Richardson was charged by the Santa Cruz County Superior Court to operate the utility in a manner that would expediently bring the water company into compliance with safe drinking water requirements.

Resolution W-3941, dated September 7, 1995, granted Mountain Charlie a temporary increase in rates of \$280,320, subject to refund, including facilities charges of \$106,872 for a temporary upgrade to the system. This increase expired September 1, 1996 and Mountain Charlie is currently charging rates authorized in D.91-06-047.

Richardson, in managing the water utility, has two main responsibilities: to bring safe, treated water into the system as soon as possible; and to negotiate a permanent solution to water quality problems. To meet these goals, Richardson expects to make substantial improvements to facilities in the next year.

In this filing Mountain Charlie requests authority to enter into a loan agreement with DWR for a SDWA loan, to construct approximately \$777,090 in plant improvements, and to implement a monthly surcharge in accordance with the provisions of General Order (G.O.) 96-A, §§ 816 through 830 of the California Public Utilities Code, and Decision 93-11-066. None of the plant improvements contemplated in this filing were part of the temporary facilities approved by Resolution W-3941.

Richardson, as Receiver for Mountain Charlie, has received a DWR SDWA loan commitment letter, dated November 19, 1996, which includes a list of contingencies that Mountain Charlie must complete before DWR will enter into a SDWA loan contract with Mountain Charlie. Additionally, DWR advises Mountain Charlie that under DWR's current funding restrictions, all construction must be completed and reimbursement for eligible project costs processed no later than the end of 1997.

#### NOTICES/PROTESTS

Mountain Charlie notified its customers, all competing and adjacent utilities, and all interested parties of the proposed surcharge by a mailed notice dated October 30, 1996.

Additionally, a public meeting was held on November 19, 1996 at 7 p.m. at Loma Prieta School near the service territory. Approximately forty people attended. A Water Division representative explained the Commission's rate increase and financing approval process. Richardson and the Project Engineer representing Mt. Charlie presented a project description and proposed budget. Included in the description was a statement of the interest rate, the amount borrowed, the potential surcharge, and other technical aspects of a SDWA loan. Customers predominantly inquired about whether the entire amount was necessary for the project and why the cost was so high. The Engineer explained that sufficient loan funds are needed to complete the project and that SDWA costs are much lower than conventional financing.

No protests were received.

#### DISCUSSION

Mountain Charlie is proposing to finance the improvements over a thirty year period with a DWR SDWA loan at a fixed annual rate of 2.4175%. The total loan will be \$815,945, which includes a 5% DWR administrative fee of \$38,855.

Mountain Charlie is proposing to use the loan proceeds to make the following \$777,090 in improvements:

- o Connection to Redwood Mutual Water Company's (MWC) Reservoir 4;
- o Construction of 21,940 Linear Feet (4.2 miles) of Pipeline;

- o Construction of a Bypass Line around Ridge MWC's Lower Reservoir;
- o Installation of Pumps and Controls at Redwood MWC's Reservoir 4;
- o A Telemetry Unit at the Mt. Charlie Tank Site; and
- o Telemetry Improvements at Ridge MWC's Lower Reservoir.

Water Division has reviewed the proposed construction and concurs that it is needed. However, as Water Division recommends, the design, specification and construction of the proposed facilities should be approved by appropriate professional engineer(s). The amount to be recovered by surcharge rates should be adjusted to reflect the actual costs of the improvements.

Mountain Charlie proposes that the revenue to meet the payments on the SDWBA loan be obtained from a surcharge on all service. The semiannual payment for principal and interest on the SDWBA loan is estimated to be \$19,199.90 (\$38,399.80 per year). DWR requires an additional accumulation of \$1,920 semiannually (\$3,840 per year) during the first ten years of the loan repayment period in order to build a loan repayment reserve fund equal to two semiannual payments. The total surcharge to be collected annually to provide for the principal and interest payments and contribute to the reserve is thus \$42,239.80 per year. A surcharge of \$24.79 per month on each of Mountain Charlie's 142 currently active customers would produce the amount needed.

Since the proposed construction will substantially improve service and the loan is reasonably required for the purposes specified, Mountain Charlie should enter into the proposed SDWBA loan with DWR and implement a surcharge on customers' bills to repay the \$815,945 loan.

In accordance with our standard practice, the repayment surcharge should be separately identified on customers' bills, and for ratemaking purposes the utility assets financed through the surcharge should be permanently excluded from rate base. For tracking purposes, the assets and related depreciation on these assets should be recorded in memorandum accounts.

Consistent with our established practice for SDWBA financed plant, Mountain Charlie should impose a service fee when a customer requests new service, thereby compensating existing ratepayers for the past surcharge collections that relate to the new customer's share of the plant improvements. The amount of the service fee should be equal to the accumulated total of the monthly surcharge which would have been applicable to such service from the effective date of surcharge implementation until the date of new service, not to exceed \$1,500. The amount should be limited so that future development is not inhibited.

Customers whose accounts are inactive during any period of the SDWBA loan surcharge should be required to pay accrued surcharges

for the period of inactivity upon restoral. The accrued surcharge should be equal to the accumulated total of the monthly surcharge which would have been applicable to such service from the effective date of the inactivity until the restoration of service. Consistent with the service fee, the accrued surcharge amount should be limited to \$1,500.

To ensure adequate accountability for deposits and disbursements, Mountain Charlie should establish a trust account, with a trustee approved by Water Division, to manage the reserve for the SDWA loan, the revenue collected through the monthly surcharge and the service fees, and any interest earned on the trust account. All SDWA amounts collected from customers shall be deposited in the trust account within thirty days of receipt.

We emphasize that the surcharge will only cover the cost of the loan incurred to finance the proposed construction. It will not preclude the likelihood of future rate increases to cover rising costs of repair materials, wages, taxes, or other operating expenses that may be incurred in operating or maintaining the proposed facilities.

Early in 1996, Mountain Charlie customers voted to form the Summit West County Service Area (SWCSA) to take over the waterworks duties of Mountain Charlie. SWCSA is currently working with a court-approved appraiser to determine a fair value of the system for eminent domain purposes. It is not known when that process will conclude or when the system operation might be turned over to SWCSA. However, SWCSA has committed not to take over system operation until the SDWA-funded construction is completed. So that utility customers are not put in the position of paying twice for the plant financed by the proposed surcharge, Mountain Charlie, or its shareholders, should not receive any compensation for the plant financed by the surcharge in the event of a sale to SWCSA or any other entity.

#### FINDINGS

1. Pursuant to the provisions of Decision 93-11-066, Mountain Charlie submitted Advice Letter 17, on November 22, 1996, requesting authority to borrow funds through the SDWA program, to construct needed plant improvements, and to implement a surcharge collected from customers.
2. Mountain Charlie's planned construction is needed.
3. Mountain Charlie's proposal to borrow the necessary funds from DWR through the SDWA program, to mortgage or otherwise encumber its properties as security for its evidences of indebtedness, and to implement a surcharge on customers' rates over the life of the loan to repay the principal and interest relating to the \$815,945 loan is reasonable.
4. Any customer who requests new service after the implementation of the surcharge should compensate existing ratepayers for past surcharge collections. The amount should be limited to \$1,500 so that future development is not hindered.

5. Any customer whose account is inactive during the period of SDWRA surcharges should be required to pay accrued surcharges for the period of inactivity before service can be restored, limited to \$1,500.

6. The increases authorized in the resolution are justified, and the resulting rates are reasonable. Proceeds from the surcharge, new service fee and service restoration fee should not be intermingled with other utility revenues.

7. Since the utility's stockholders are not financing the proposed plant improvements, the stockholders should not seek or receive any compensation for the plant financed by the ratepayers should such plant be acquired by a public entity or sold to another private entity.

8. There is no known opposition, and there is no reason to delay granting the authority requested.

9. The following order should be effective today, the authorization to enter into a loan agreement should be effective upon payment of the fee set by PU Code (1904(b), and the revised rate schedules should be effective five days after the execution of the loan or after the advice letter filing described in the following order, whichever is later, and should apply only to service rendered thereafter.

THEREFORE, IT IS ORDERED that:

1. Mountain Charlie Water Works, Inc.'s (Mountain Charlie) request by Advice Letter 17, dated November 22, 1996, is approved. Mountain Charlie is authorized to file by advice letter, in accordance with General Order (G.O.) 96-A, tariff sheets to implement the rate changes described in this resolution. The filing shall be effective five days after the loan is executed or the advice letter is filed, whichever is later, shall be marked to show that it was authorized in Resolution W-4011, and shall apply only to service rendered thereafter.

2. Mountain Charlie is authorized to borrow up to \$815,945 from the California Department of Water Resources (DWR) through the California Safe Drinking Water Bond Act (SDWBA) Loan program, at a fixed interest rate of 2.4175%, and to use the proceeds for the purposes specified in the advice letter.

3. The SDWBA rates authorized in this resolution shall expire when sufficient funds have been accrued to amortize the loan.

4. Mountain Charlie shall submit to the Director of the Water Division a copy of the loan agreements with DWR, within fifteen days of execution.

5. Mountain Charlie shall acquire the services of a trustee, approved by the Water Division, to establish and maintain a separate bank account, preferably interest bearing, to ensure adequate accountability for deposits, disbursements, and for the

services of the fiscal agent. All surcharge amounts collected from customers shall be deposited in the trust account within thirty (30) days. The reserve amounts required to be maintained by DWR for the SDWBA loan shall be also maintained in the trust account.

6. The trustee shall report once yearly, on or before the anniversary date of the SDWBA loan agreement, to the Water Division a summary of each year's transactions including all billed surcharge revenue and any interest earned on deposits made to the trust account. The trust account shall be reduced by payment of principal and interest on the SDWBA loan, and by any charges for the services of the trustee.

7. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Mountain Charlie.

8. On or before each annual anniversary of the SDWBA loan agreement, Mountain Charlie shall file an advice letter seeking to adjust its SDWBA surcharge rates to reflect the account balance, changes in the number of customers and any other factors which may produce overages or shortages in the trust account. Surcharge decreases may be made effective on forty days notice through advice letters filed in accordance with G.O. 96-A. Surcharge increases will require Commission approval, usually by resolution, before they may become effective.

9. Mountain Charlie shall impose a service fee on customers requesting new service. The amount of the service fee shall be equal to the accumulated total of the monthly SDWBA surcharge which would have been applicable to such service from the effective date of surcharge implementation until the date of new service, not to exceed \$1,500. The new customer shall make a lump sum payment of this accumulated service fee upon connection and thereafter shall pay the monthly surcharge. Such service fees shall be deposited in the SDWBA surcharge trust account within 30 days of receipt.

10. Mountain Charlie shall require any customer whose account is inactive during the period of the SDWBA surcharge to pay accrued surcharges for the period of inactivity before service can be restored. The amount of the accrued surcharge shall be equal to the accumulated total of the monthly surcharge which would have been applicable to such service from the effective date of service inactivity until the date of reactivation, not to exceed \$1,500. The inactive customer shall make a lump sum payment of these accumulated surcharges upon restoration of service and thereafter shall pay the monthly surcharge. Such accumulated surcharges shall be deposited in the SDWBA surcharge trust account within 30 days of receipt.

11. Mountain Charlie shall include tariff sheets to implement the new service fee and service restoration fee with the advice letter required in Ordering Paragraph #1 above.

12. Mountain Charlie shall acquire the services of a professional engineer(s) to approve the design, specification and construction of the proposed water storage tanks and treatment facilities. Mountain Charlie shall send a copy of the engineer(s)' report to

the Water Division within 15 days of completion of the report. Construction shall not begin until Water Division has reviewed the report.

13. Mountain Charlie shall submit to the Director of the Water Division quarterly letters indicating the status of construction and shall inform the Director of the Water Division in writing when construction is complete.

14. The plant financed by the SDWA loan shall be permanently excluded from ratebase for ratemaking purposes. The SDWA-financed assets and related depreciation on those assets shall be recorded in memorandum accounts for tracking purposes.

15. Mountain Charlie, or its shareholders, shall not seek or receive any compensation for SDWA-financed assets should those assets be acquired by a public or private entity.

16. The authority granted by this order to Mountain Charlie will become effective when Mountain Charlie pays \$1,632, the fee set forth by Public Utilities Code (( 1904(b)). In all other respects the effective date of this resolution is today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 20, 1996. The following Commissioners approved it:

*Wesley Franklin*

WESLEY M. FRANKLIN  
Executive Director

P. GREGORY CONLON  
President  
DANIEL Wm. FESSLER  
JESSIE J. KNIGHT, Jr.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
Commissioners