

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-4015  
DECEMBER 20, 1996

R E S O L U T I O N

RESOLUTION W-4015. TWIN VALLEY WATER COMPANY.  
REQUEST TO BORROW ADDITIONAL FUNDS UNDER THE SAFE  
DRINKING WATER BOND ACT AND TO INCREASE ITS SURCHARGE  
TO WATER RATES TO REPAY THE LOAN.

BY DRAFT ADVICE LETTER FILED ON SEPTEMBER 23, 1996.

SUMMARY

By Resolution F-633 dated December 21, 1994, the Commission authorized Twin Valley Water Company (Twin Valley) to borrow \$157,500 under the Safe Drinking Water Bond Act (SDWBA), execute a loan contract with the California Department of Water Resources (DWR), and place into effect a surcharge on its water rates.

This resolution grants Twin Valley its current request for the following authority:

1. To increase the amount of monies borrowed under the SDWBA from \$157,500 to \$210,000 and the term of the loan from 25 to 30 years.
2. To adjust the customer surcharge rates for purposes of amortizing the increased loan.

BACKGROUND

The Safe Drinking Water Bond Law program was funded by the passage of bond acts between 1976 and 1988. The state Department of Health Services (DHS) is responsible for enforcing water quality standards, makes determinations of whether water utilities meet health requirements, and may issue compliance orders when necessary. Under the SDWBA, DWR assesses the utility's financial needs to meet these standards and its ability to meet the loan obligations. DWR acts as the lending agency and fiscal administrator of the loan. The water utility then applies to the Commission for authority to enter into the loan agreement and for any increase in water rates to repay the loan. The Commission examines the entire proposal and decides whether to authorize the loan and related increased water rates.

DISCUSSION

Twin Valley operates a community water system that supplies domestic water to approximately 77 service connections in an unincorporated area southwest of the City of Morgan Hill, Santa Clara County. Twin Valley has two groundwater sources that serve the system.

On September 3, 1993, the Department of Health Services issued a compliance order to Twin Valley for failure to comply with the California Health and Safety Code as well as the California Code of Regulations.

Twin Valley filed Advice Letter 7 on October 12, 1994, for the Safe Drinking Water Bond Act (SDWBA) loan and surcharge approval.

On December 21, 1994, the Commission issued Resolution F-633, which granted authority for Twin Valley to borrow \$157,500 under the SDWBA loan program and to place in effect a surcharge on its water rates for the purpose of amortizing the loan.

By early 1996, Twin Valley had completed its three test wells and determined that they would not provide sufficient water to meet the system's needs. It thereupon requested additional money from DWR in order to fund the expanded project of drilling two more wells and performing associated water quality testing. On March 5, 1996, DWR issued Amendment A-2 to its loan contract indicating that it had reserved an additional \$50,000 for a total of \$200,000 (or \$210,000, with DWR's required 5% administrative fee).

According to Amendment A-2 of the contract, the loan principal amount of \$210,000 is to be repaid over a 30-year term at a 2.973% interest rate. The commitment is subject to the availability of funds from the sale of state general obligation bonds. Also, Twin Valley must satisfy various requirements enumerated in DWR's Amendment A-2. In particular, DWR's commitment is contingent on this Commission's approval of the loan and authorization to increase its customer surcharge for repayment of the loan.

On September 23, 1996, Twin Valley filed a draft advice letter requesting Commission approval for the loan increase and corresponding surcharge increase.

Water Division has evaluated the expanded project and agrees that it is needed, and that Twin Valley will need estimated revenues of \$11,691 per year to make principal and interest payments and accumulate the DWR-required reserve.

With Water Division's assistance, Twin Valley has developed the following surcharge rates which are based on the capacity of the meter or service:

<u>Metered Service</u>	<u>Monthly Surcharge</u>	
	<u>Present</u>	<u>Proposed</u>
3/4-inch meter . . . . .	\$ 6.17	\$ 8.44
1-inch meter . . . . .	10.28	14.08
1 1/2-inch meter . . . . .	20.55	28.16
2-inch meter . . . . .	32.88	45.05

In reviewing Twin Valley's SDWBA records since collections began in January, 1996, Water Division found that Twin Valley had not been making regular deposits of SDWBA surcharges collected from its customers as the Commission required in its earlier authorization. Twin Valley has subsequently made those back deposits and has agreed to maintain its bank account such that all surcharges are deposited within 30 days.

NOTICE/PROTESTS

Individual notices of the proposed loan increase and surcharge rate increase were mailed to Twin Valley's customers on November 22, 1996. No protests were received.

FINDINGS

1. Twin Valley was authorized by Resolution F-633 to borrow \$157,500 under the SDWBA for needed water facility improvements, and to impose a surcharge on its water rates to fund payments of principal and interest on the loan.
2. After completing its three test wells, Twin Valley has determined that the project as initially planned would not provide sufficient water to meet the system's needs.
3. Twin Valley has requested additional SDWBA funding from DWR for drilling two more wells and performing associated water quality testing. DWR has agreed to provide the additional funding, subject to conditions set forth in its March 5, 1996, commitment letter.
4. Twin Valley proposes to increase its SDWBA borrowing to a total not to exceed \$210,000, repayable in semiannual

installments over 30 years at 2.973% annual interest, and to increase its SDWBA surcharge accordingly.

5. Water Division has evaluated the expanded project and agrees that it is necessary, that Twin Valley will need estimated revenues of \$11,691 per year to make principal and interest payments and accumulate the DWR-required reserve, and that the revised SDWBA surcharge Twin Valley proposes will produce that amount.

6. All terms and conditions set forth in Resolution F-633 for Twin Valley's earlier SDWBA loan authorization and SDWBA loan surcharge should apply to the revised loan and surcharge authorized in this resolution.

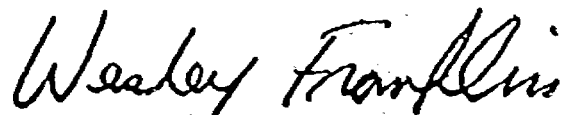
7. The proposed borrowing is for proper purposes and the money, property, or labor to be procured or paid for is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

8. The increase in rates and charges authorized by this resolution is justified and the resulting rates are reasonable.

THEREFORE, IT IS ORDERED that:

1. Twin Valley Water Company, Inc. (Twin Valley) is authorized to borrow up to \$210,000 from the State of California under the Safe Drinking Water Bond Law for the purposes specified in its draft advice letter, and as defined in Amendment A-2 of its loan contract with the Department of Water Resources.
2. Twin Valley is authorized to file in accordance with General Order 96-A an advice letter and tariff sheets implementing the surcharges listed in the body of this resolution. The filing shall be effective five days after the amended loan is executed or the advice letter is filed, whichever is later, shall be marked to show that it was authorized by this resolution, and the revised rates shall apply to service rendered on and after its effective date.
3. All terms and conditions set forth in Resolution F-633 for Twin Valley's earlier SDWBA loan authorization and SDWBA loan surcharge shall apply to the revised loan and surcharge authorized in this resolution.
4. The authority granted by this resolution shall become effective when Twin Valley pays a fee of \$105 as required by Public Utilities Code { 1904. In all other respects, this resolution is effective today.

I 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 M. FRANKLIN  
Executive Director

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