

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Finance Branch

RESOLUTION W-4028  
February 19, 1997

**R E S O L U T I O N**

RESOLUTION W-4028. KENWOOD VILLAGE 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 ADVICE LETTER NO. 37 FILED ON NOVEMBER 1, 1996.

SUMMARY

By Resolution F-636 dated March 16, 1995, the Commission authorized Kenwood Village Water Company (Kenwood) to borrow \$353,850 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 Kenwood its current request for the following authority:

1. To increase the amount of monies borrowed under the SDWBA from \$353,850 to \$449,400.
2. To convert the additional expenses (cost overruns of the project) from rate-based capital expenditures to loan funds.
3. To reimburse itself from the SDWBA surcharge account for construction period interest payments made by the company.
4. To adjust the customer surcharge rates for purposes of amortizing the increased loan.

BACKGROUND

Kenwood supplies water to approximately 289 customers in the unincorporated area known as Kenwood Village, located north of Kenwood, Sonoma County.

On April 14, 1994, the California Department of Health Services (DHS) noted deficiencies in facilities owned and operated by McFarren Water Company, a very small, unregulated

February 19, 1997

water system adjacent to and partially within Kenwood's service territory. DHS recommended as a solution that would provide maximum benefits to customers of both companies, that Kenwood construct a 190,000 gallon storage tank and incorporate McFarren's distribution system into its own.

Kenwood concurred, and on December 1, 1994, filed Advice Letter No. 33 for the Safe Drinking Water Bond Act (SDWBA) loan and surcharge approval.

On March 16, 1995, the Commission issued Resolution F-636, which granted authority for Kenwood to borrow \$353,850 under the SDWBA loan program and to place in effect a surcharge on its water rates for the purpose of amortizing the loan.

On June 11, 1996, Kenwood requested additional loan money from DWR for project cost overruns that it had covered from its own funds.

On August 26, 1996, DWR issued Amendment A-1 to its loan contract indicating that it had reserved an additional \$91,000 for a total of \$428,000 in construction funds (or \$449,400, with DWR's required 5% administrative fee).

According to Amendment A-1 of the contract, the loan principal amount of \$449,400 is to be repaid over a 15-year term at a 2.948% interest rate. The commitment is subject to the availability of funds from the sale of state general obligation bonds. Also, Kenwood must satisfy various requirements enumerated in DWR's Amendment A-1. 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.

#### DISCUSSION

On November 1, 1996, Kenwood filed Advice Letter No. 37 requesting Commission approval for a loan increase to cover cost overruns, and for a corresponding surcharge increase.

Also on November 1, Kenwood submitted a supplemental letter explaining that the company had postponed collecting its Resolution F-636 authorized surcharge until the project was complete and the former McFarren customers converted over to its system, having reasoned that the cost of the loan would then be more evenly spread among both sets of customers in the small community. Following its standard practice, however, DWR invoiced Kenwood for interest on the funds that were paid out during the construction period before regular SDWBA repayments began. Because it had not begun collecting its surcharge immediately, Kenwood had limited funds in the SDWBA surcharge account over and above those which would allow it to

make its first semi-annual loan payment. In order to pay those construction period interest invoices, Kenwood had to deposit company-provided funds into its SDWBA surcharge account. Kenwood's November 1, 1996, supplemental letter explains that it would also like authority to reimburse itself for those interest repayments as excess funds accrue in the SDWBA account.

Water Division has reviewed Advice Letter No. 37 and has examined the projected and actual costs of Kenwood's water improvements. Based on its research, Water Division has determined that the increased engineering and construction costs were attributable in large part to a relocation of the water tank site that was beyond Kenwood's control.

Because SDWBA loans represent a much lower cost of capital than owner-provided funds, it would be to Kenwood's benefit, and ultimately to the benefit of its customers, to allow Kenwood to increase its SDWBA loan amount and to reimburse itself for construction-period overrun payments and interest charges as it proposes.

Water Division has determined that Kenwood will need estimated revenues of \$41,017 per year to make principal and interest payments and accumulate the DWR-required reserve.

Kenwood 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>
5/8 x 3/4-inch meter . . . . .	\$ 8.02	\$ 10.22
3/4-inch meter . . . . .	\$ 12.03	\$ 15.33
1-inch meter . . . . .	20.05	25.55
1 1/2-inch meter . . . . .	40.10	51.09
2-inch meter . . . . .	64.17	81.75
3-inch meter . . . . .	120.30	153.28
4-inch meter . . . . .	200.50	255.46

NOTICE/PROTESTS

Notices of the proposed loan increase and surcharge rate increase were mailed to Kenwood's customers with their October billings on November 1, 1996.

Water Division received five letters making various points in opposition to Kenwood's proposal. Among the reasons stated were that company owners should pay for construction overruns; there have been service problems; Kenwood should have provided

a better explanation for the increased project costs; there have been too many increases in recent years; and more of the company's revenues should be recovered through quantity rates and less through service charges.

FINDINGS

1. Kenwood was authorized by Resolution F-636 to borrow \$353,850 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. The water facility improvements were completed in May, 1996, but exceeded the projected costs.
3. Kenwood has requested additional SDWBA funding from DWR for the cost overruns and DWR has agreed to provide the additional funding, subject to conditions set forth in its August 26, 1996 commitment letter.
4. Kenwood proposes to increase its SDWBA borrowing to a total not to exceed \$449,400, repayable in semiannual installments over 15 years at 2.948% annual interest, and to increase its SDWBA surcharge accordingly.
5. Water Division has evaluated the project costs and has found that they are reasonable, that Kenwood will need estimated revenues of \$41,017 per year to make principal and interest payments and accumulate the DWR-required reserve, and that the revised SDWBA surcharge Kenwood proposes will produce that amount.
6. Cost overruns which were originally paid with Kenwood funds should be reimbursed to Kenwood from increased SDWBA loan funds. Construction period interest payments made with Kenwood funds should be recoverable from the SDWBA surcharge account as excess funds become available in that account.
7. All terms and conditions set forth in Resolution F-636 for Kenwood's earlier SDWBA loan authorization and SDWBA loan surcharge should apply to the revised loan and surcharge authorized in this resolution.
8. 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.
9. The increase in rates and charges authorized by this resolution is justified and the resulting rates are reasonable.

THEREFORE, IT IS ORDERED that:

1. Kenwood Water Company, Inc. (Kenwood) is authorized to increase its borrowing up to an amount not to exceed \$449,400 from the State of California under the Safe Drinking Water Bond Law for the purposes specified in its Advice Letter No. 37, and as defined in Amendment A-1 of its loan contract with the Department of Water Resources.
2. Kenwood is authorized to increase its Safe Drinking Water Surcharge rates as proposed in Advice Letter No. 37. Advice Letter No. 37 and its accompanying tariff sheets shall be marked to show that they were approved by this resolution, and the revised rates shall apply to service rendered on and after its effective date.
3. Kenwood is authorized to recover from the Safe Drinking Water Bond Act (SDWBA) surcharge account those SDWBA construction period interest payments made with its own funds, as excess funds become available in that account.
4. All terms and conditions set forth in Resolution F-636 for Kenwood's earlier SDWBA loan authorization and SDWBA loan surcharge shall apply to the revised loan and surcharge authorized in this resolution.

February 19, 1997

5. The authority granted by this resolution to borrow additional Safe Drinking Water Bond Act funds shall become effective when Kenwood pays a fee of \$191 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 February 19, 1997. The following Commissioners approved it:

*Wesley Franklin*

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WESLEY M. FRANKLIN  
Executive Director

P. GREGORY CONLON  
President  
JESSIE J. KNIGHT, Jr.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
RICHARD A. BILAS  
Commissioners