

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Utility Audit, Finance & Compliance Branch

RESOLUTION W-5022
March 12, 2015

RESOLUTION

**(RES. W-5022) RESOLUTION GRANTING CALIFORNIA
WATER SERVICE COMPANY AUTHORITY TO INCREASE
THE SAFE DRINKING WATER STATE REVOLVING FUND
SURCHARGE RATES IN ITS REDWOOD VALLEY
(LUCERNE) DISTRICT FOR PAYMENT OF THE DEBT
AUTHORIZED BY DECISION 08-09-002.**

By Advice Letter No. 2147 filed on November 4, 2014.

SUMMARY

This Resolution grants California Water Service Company (CWS) the authority requested in its Advice Letter (AL) No. 2147.

CWS requests authority pursuant to the Water Industry Rules 7.3.3 of General Order 96-B (GO 96-B) to:

1. Increase the Redwood Valley (Lucerne) District Safe Drinking Water State Revolving Fund (SDWSRF) surcharge rates in order to provide adequate collection for future semiannual payments and reserve requirements totaling \$129,776.13 for its SDWSRF loan.

A notice of the proposed surcharge increase was mailed to each customer on December 12, 2014, and published in the Lake County Record-Bee on December 17, 2014.

On December 22, 2014, CWS received an e-mail from one customer objecting to the increase in surcharge and the effective date of the rate increase. On December 26, 2014, another customer expressed concern regarding the surcharge increase. CWS and the Commission's Division of Water and Audits (DWA) responded to both customers' concerns, as discussed below.

BACKGROUND

CWS, a California corporation, is a Class A water company with service areas throughout the state. Lucerne provides water service to approximately 1,200 customers in the community of Lucerne, in Lake County. CWS acquired the Lucerne system in the year 2000 as part of its merger with the Dominguez Water Company (Dominguez), as authorized in Decision (D.) 00-05-047.

In D.08-09-002, the Commission authorized CWS to borrow \$7,442,700 under the SDWSRF administered by the State Water Resources Control Board (SWRCB), previously the California Department of Public Health, to finance construction of a water treatment plant in the Lucerne service area and to impose a surcharge to repay the loan. The Commission also authorized CWS to establish a maximum lump sum service fee of \$2,000 for new connections pertaining to vacant or undeveloped lots since they will benefit from the improvements.

According to the loan contract between CWS and the SWRCB, the term is for 30 years, maturing in 2039, and required the accumulation of a 10% reserve during the first 10 years of the loan.¹ The loan contract also required the execution of a fiscal services agreement with a fiscal agent who would act as trustee for loan repayment funds deposited and perform services pertaining to receiving deposits, remitting payments and accumulating the reserve. In addition, the loan contract specified that the borrower should meet the payments of the loan when due or raise sufficient funds through increased charges to meet the loan payments.

¹ Loan Contract # SRF 08CX301.

The surcharge authorized in D.08-09-002 is shown in the following table.

**Table 1
Original Surcharge Rates**

Size of Meter	Monthly Surcharge Year 1 -1 0	Monthly Surcharge Year 11 – 30
5/8" x 3/4"	\$ 17.37	\$ 15.79
3/4"	\$ 26.06	\$ 23.69
1"	\$ 43.43	\$ 39.48
1-1/2"	\$ 86.87	\$ 78.97
2"	\$138.99	\$126.35
3"	\$260.60	\$236.91
4"	\$434.33	\$394.85
6"	\$868.66	\$789.69

By AL No. 1963, as supplemented by AL No. 1963-A, effective January 1, 2010, CWS notified the Commission that the SWRCB only approved a loan amount of \$7,078,698 instead of the \$7,442,700 authorized in D.08-09-002. Accordingly, CWS adjusted and implemented the surcharge rates shown in the following table. These are the rates currently in effect.

**Table 2
Current Surcharge Rates**

Size of Meter	Monthly Surcharge Year 1 -1 0	Monthly Surcharge Year 11 – 30
5/8" x 3/4"	\$ 16.52	\$ 15.02
3/4"	\$ 24.79	\$ 22.53
1"	\$ 41.43	\$ 37.55
1-1/2"	\$ 82.62	\$ 75.11
2"	\$132.19	\$120.17
3"	\$247.85	\$225.32
4"	\$413.09	\$375.53
6"	\$826.18	\$751.07

In May, 2014, DWA's Utility Audit, Finance and Compliance Branch (UAFCB) conducted a review of CWS' Lucerne SDWSRF trust account and determined that CWS is not collecting sufficient revenues to provide for the loan payments and reserve requirement. UAFCB noted that the number of Lucerne customers decreased from 1,262 in 2010 to 1,200 as of June 30, 2014. According to CWS, customers left the system due to economic reasons or opted to terminate service due to home foreclosures and rental vacancies.

In July 2014, UAFCB instructed CWS to determine how the surcharge rates should be adjusted to have sufficient funds for accumulation of the reserve requirement and payments on the loan.

A. CWS Advice Letter Request

On November 4, 2014, CWS filed AL No. 2147, to request authority to increase the monthly SDWSRF surcharge rates in the Lucerne service area in order to collect adequate funds for loan payments and the reserve requirement.

B. Proposed Surcharge Adjustment

CWS states that it needs to make loan payments of \$235,956.60 and collect the reserve requirement of \$23,595.66 per year (for the first 10 years of the loan) for a total of \$259,552.26. As shown in the following table, CWS indicates that it only collects approximately \$247,208.04 per year, leaving an annual shortfall of approximately \$12,344.22.

Table 3
Surcharge Shortfall

Current Annual Revenue Requirement	\$259,552.26
Estimated Current Surcharge Collection	<u>247,208.04</u>
Requested Increase in Annual Surcharge	<u>\$ 12,344.22</u>

In order to eliminate the \$12,344 shortfall and provide sufficient funds to make the loan payments, CWS requests authority to increase its surcharge rates by approximately 5%, as shown in the following table.

Table 4
Proposed Surcharge Rates

Metered Service Size of Service Or Meter	Present Monthly Surcharge	Proposed Monthly Surcharge	Increase	Percent
5/8" x 3/4"	\$ 16.52	\$ 17.35	\$ 0.83	5.0%
3/4"	\$ 24.79	\$ 26.02	\$ 1.23	5.0%
1"	\$ 41.43	\$ 43.36	\$ 2.05	5.0%
1-1/2"	\$ 82.62	\$ 86.73	\$ 4.11	5.0%
2"	\$132.19	\$138.76	\$ 6.57	5.0%
3"	\$247.85	\$260.18	\$12.33	5.0%
4"	\$413.09	\$433.63	\$20.54	5.0%
6"	\$826.18	\$867.26	\$41.08	5.0%

With the proposed surcharge increase, a 5/8 x 3/4-inch metered customer's monthly surcharge would increase by \$0.83 from \$16.52 to \$17.35 or by 5.0%.

With the current number of Lucerne customers, the proposed surcharge rates will generate an estimated monthly collection of \$21,629.36 or \$259,552.32 annually.

NOTICE AND PROTESTS

Pursuant to G.O. 96-B, Water Industry Rule 4.1, on November 4, 2014, CWS served its AL 2147 on its service list, which included among others, some customers in Lucerne. Notice of AL No. 2147 was made by publication in the Commission's Daily Calendar of November 10, 2014.

On December 12, 2014, CWS notified all of its Lucerne customers by mail of the proposed surcharge that is needed to have sufficient funds for future loan payments and an adequate reserve. In the Lake County Record-Bee, CWS published a public notice on December 17, 2014 describing the proposed surcharge, with the estimated rate change expressed in both dollar and percentage terms. The Lake County Record-Bee is a local newspaper circulated in Lake County, California.

On December 22, 2014, a Lucerne customer sent CWS an email expressing concern regarding the surcharge increase and the effective date of a rate increase. On December 29, 2014, CWS responded to the customer's concern explaining that CWS is

not collecting a surcharge sufficient to meet future loan payments and is bound by the SDWSRF loan agreement to raise sufficient funds by increasing the surcharge. In addition, CWS indicated that the surcharge increase would only be effective once the Commission issues a resolution granting the increase. Thereafter, several email exchanges transpired between CWS and the customer. On January 2, 2015, staff informed the customer by email that CWS's request for a rate increase does not become effective immediately or within 30 days, and the utility is required to notice all customers by bill insert and newspaper publication at least 30 days before the rate increase becomes effective.

On December 26, 2014, another metered customer sent a letter expressing concern regarding the surcharge increase due to having a low income and being a senior citizen. On December 29, 2014, CWS responded to the customer's concern indicating that it is bound by the SDWSRF loan agreement to raise sufficient funds by increasing the surcharge. CWS further explained that with Lucerne being a small system with only 1200 connections, it is difficult to operate at low cost. Because CWS must meet the same water quality and service standards as large districts, the costs of doing so are spread over a smaller number of customers. Lastly, CWS reminded the customer about the Rate Support Fund (RSF) and the Low Income Rates Assistance (LIRA) for low income customers. This customer's bill as of December 17, 2014 included a \$50.66 credit from the RSF program and a \$60 credit from the LIRA program.

DISCUSSION

Pursuant to the SWRCB's Rates and Charges in its Loan Contract for a Construction Loan under the SDWSRF, the supplier or borrower should meet the payments of the loan when due or raise sufficient funds through increased charges to provide adequate collection for future loan payments and the accumulation of the reserve requirement. According to CWS' calculation, a \$12,344 or 5% increase in surcharge rates is needed in order to provide for the semi-annual payments and reserve requirement totaling \$129,776.13.

The requested increase in surcharge rates is reasonable and will provide CWS sufficient surcharge revenue to continue paying the Lucerne SDWSRF loan and accumulate the reserve requirement. It is the Commission's responsibility to provide CWS the means to comply with the SWRCB's requirements on rates and charges. As set forth herein, we will authorize CWS to increase the surcharge rates.

The Commission requires that periodically, a report be submitted stating the changes in the number of connections by type of customer and by size of connection, the amount of

surcharge collected, the amount of repayment made, the outstanding balance of the loan, and the overages and shortages in the balancing account.

We put CWS on notice that if the number of its customer increases, creating excess funds, or the trust account has accumulated the total reserve requirement of \$235,956.60, CWS shall file an advice letter to adjust the surcharge rates accordingly.

SAFETY

In this filing, DWA's UAFCB thoroughly reviewed CWS' request to adjust the surcharge rates pursuant to the requirements of the loan contract. There are no safety implications associated with AL No. 2147.

COMMENTS

While two out of CWS' Lucerne 1,200 customers expressed concerns regarding the surcharge increase, they did not make a showing that the proposed 5% surcharge is not justified. The surcharge serves only to repay the SDWSRF loan and does not generate any profit to the utility owners.

Public Utilities Code Section 311 (g) (1) generally requires that draft resolutions be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

On January 23, 2015, the proposed resolution in this matter was mailed to all parties and made available for public comment. Comments by email on the draft resolution were received on January 29, 2015 from two Lucerne customers. One customer disagreed with CWS' contention that customers left the water system due to economic reasons, home foreclosures or rental vacancies, but asserted that individuals and businesses closed due to continued increases in water rates and that CWS ventured into some million dollar plant that escalated its operational costs. The other customer complained that CWS should fix its water system with its own money and not keep increasing rates, and expressed concern about subsidizing other customers through low income rates. On February 12, 2015, one customer who previously expressed concern about the surcharge increase contained in the notice to customers indicated that the current water rates should be sufficient enough to absorb any undercollection. This customer, with four other names listed in the email requested to be in CWS' service list. These comments resulted in nonsubstantive changes to the proposed Resolution.

We are sympathetic to these customers' concerns, but ratepayers ultimately pay for all water system requirements and improvements. The surcharge is a dedicated source of revenue intended only for the repayment of the loan. Once the loan is fully paid, any excess funds in the trust account will be refunded to customers and not the utility owner. Revenues derived from water rates that consist of the quantity rates and service charge cannot be used to pay for the SDWSRF loan.

D.00-05-047 provides sufficient conditions and checks and balances to ensure that the surcharge and the plant financed by the SDWSRF loan are properly handled. In this Resolution we reiterated that if there will be excess funds in the future, CWS should file an advice letter to adjust the surcharge rates accordingly.

FINDINGS

1. CWS, a California corporation, is a Class A water utility subject to the jurisdiction of this Commission.
2. In D.08-09-002, the Commission authorized Lucerne to borrow \$7,442,700 under the SDWSRF program to be paid through surcharge rates to fund the construction of a water treatment plant in the Lucerne service area.
3. The SWRCB only approved a loan of \$7,078,698 for the Lucerne water treatment plant.
4. The SDWSRF loan contract requires the accumulation of a 10% reserve to be collected during the first 10 years of the loan.
5. By AL No. 1963, as supplemented, effective January 1, 2010, CWS adjusted and implemented the surcharge rates shown in Table 2 of this Resolution.
6. The number of customers in the Lucerne service area decreased from 1,262 in 2010 to the current 1,200.
7. CWS is not collecting sufficient surcharge to make the loan payments and accumulate the required reserve.
8. Notice of the filing appeared on the Commission's Daily Calendar on November 10, 2014.

9. On December 12, 2014, CWS notified its Lucerne customers by mail of the proposed increase in surcharge rates.
10. On December 17, 2014, CWS published a public notice containing the proposed surcharge increase in the Lake County Record-Bee, a local newspaper circulated in Lake County.
11. CWS received protests from two customers regarding the surcharge increase.
12. CWS acknowledged receipt of the customer's concerns and communicated by email to one of the customers on December 29, 2014 and January 2, 2015. CWS responded by letter to the other customer on December 30, 2014. CWS explained to both customers that the SWRCB requires that CWS meet the payments of the loan when due or to raise sufficient funds through increased charges to meet the loan payments.
13. CWS received comments from a customer regarding the surcharge increase. The customer together with four other customers requested to be on CWS' service list.
14. It has been the Commission's practice to require that a periodic report with the changes in the number of connections by type of customer and by size of connection, the amount of service fee collected, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account be accomplished by the utility.
15. The Commission also specifies that changes in surcharge collection rates should be accomplished by normal advice letter procedures.
16. In its Loan Contract for a Construction Loan under the SDWSRF, the SWRCB requires that the borrower should meet the payments of the loan when due or raise sufficient funds through increase charges to meet the loan payments.
17. CWS needs to increase the Lucerne surcharge rates in order to provide the utility adequate collection for loan payments and the reserve requirement totaling \$259,552.26 annually.
18. CWS needs to adjust the surcharge rates once the 10% reserve requirement is accumulated or the number of customers' increases, creating excess funds.

CONCLUSIONS OF LAW

1. It is reasonable to adjust the current surcharge rates to provide adequate collection for CWS' future semiannual payments to SWRCB and the accumulation of the reserve requirement.
2. CWS should file a Tier 2 advice letter to adjust the surcharge rates once the 10% reserve requirement is accumulated or the number of customers' increases, creating excess funds.

THEREFORE, IT IS ORDERED THAT:

1. The surcharge increase shown in Table 4, page 5 of this Resolution, and also indicated in California Water Service Company's proposed tariff attached to Advice Letter No. 2147, Schedule No. RV-LC-1, Redwood Valley Tariff Area (Lucerne Division), General Metered Service is approved.
2. California Water Service Company shall file an advice letter to adjust the surcharge rates in the Redwood Valley Lucerne District when the 10% reserve requirement is fully collected or if the number of customers increases in its Redwood Valley Lucerne District.
3. On or before January 31, 2016 and annually thereafter, California Water Service Company shall send a report to the Division of Water and Audits' Utility Audit, Finance and Compliance Branch stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge collected, the amount of repayment made, the outstanding balance of the loan, and the overages and shortages in the balancing account.
4. If California Water Service Company needs to adjust or change the surcharge rates in the future it shall do so by normal advice letter procedures.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 12, 2015. The following Commissioners voted favorably thereon:

/s/ TIMOTHY J. SULLIVAN
TIMOTHY J. SULLIVAN
Executive Director

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
LIANE M. RANDOLPH
Commissioners

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Resolution No. W-5022 on all parties in these filings or their attorneys as shown on the attached lists.

Dated March 13, 2015, at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

CALIFORNIA WATER SERVICE COMPANY

ADVICE LETTER NO. 2147 SERVICE LIST

Jeffrey Young
473 Woodley Place
Santa Rosa, CA 95409
Email: jffying@gmail.com

Marcos Pareas
P.O. Box 152
Dillon Beach, CA 94929
Email: mapreas@gmail.com

County of Marin
Director of Public Works
P.O. Box 4186
San Rafael, CA 94913 – 4186

County of Lake
Special Districts
230 North Main
Lakeport, CA 95453

Joshua Ziese
California Department of Public Health
P.O. Box 997377, MS 7418
1616 Capital Ave.
Sacramento, CA 95899

Lance Reese
California Department of Public Health
P.O. Box 997377, MS 7418
1616 Capital Ave.
Sacramento, CA 95899

County of Marin LAFCO
3501 Civic Center Drive
San Rafael, CA 94903

Sarah Scott
Sarahs500@yahoo.com

Ciarrighli O'Brien
ciarili@yahoo.com

Craig Bach
Bachelectric.bach1@gmail.com

John Suydam
jnsuydam@gmail.com

Margaret Rowson
7072 Sonja Lu
Lucerne, CA 95458

Lisa Carter
lisa.carter.333@gmail.com