



January 26, 2018

Proposed Resolution W-5158

Agenda ID: 16267

To: All Interested Persons

Enclosed is Proposed Resolution W-5158 of the Water Division, which grants Golden State Water Company authority to recalibrate the Safe Drinking Water State Revolving Fund American Recovery and Reinvestment Act Loan surcharge to provide adequate collection for future loan payments and loan related fees. Proposed Resolution W-5158 is scheduled to appear on the March 1, 2018 Commission Meeting Agenda (ID# 16267).

The Commission may act on this resolution or it may postpone action until later. When the Commission acts on a proposed resolution, the Commission may adopt all or part of the proposed resolution, as written, or amend or modify the proposed resolution; or the Commission may set the proposed resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on Proposed Resolution W-5158 via email to Water.Division@cpuc.ca.gov on or before February 15, 2018. **Please reference "Proposed Resolution W-5158" in the subject line.**

Interested persons must also serve a copy of their comments on the utility on the same date that the comments are submitted to the Water Division. If email is unavailable, please submit comments to:

California Public Utilities Commission
Water Division
505 Van Ness Avenue
San Francisco, CA 94102

Comments should focus on factual, legal, technical errors, or policy issues in the proposed resolution.

Persons interested in receiving comments submitted may contact the Water Division at Water.Division@cpuc.ca.gov or (415) 703-1133. Please reference "Proposed Resolution W-5158."

/s/RAMI S. KAHLON

Rami S. Kahlon, Director
Water Division

Enclosures: Proposed Resolution W-5158
Certificate of Service
Service List

PROPOSED RESOLUTION

Resolution W-5158
WD

Agenda ID #16267

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5158
MARCH 1, 2018

RESOLUTION

(RES. W-5158) RESOLUTION GRANTING GOLDEN STATE WATER COMPANY AUTHORITY TO RECALIBRATE THE SAFE DRINKING WATER STATE REVOLVING FUND AND AMERICAN RECOVERY AND REINVESTMENT ACT LOAN SURCHARGE TO PROVIDE ADEQUATE COLLECTION FOR FUTURE LOAN PAYMENTS AND LOAN RELATED FEES.

SUMMARY

This Resolution grants the authority requested of the Commission by Golden State Water Company (GSWC) in its Advice Letter (AL) No. 1723-W.

In AL No. 1723-W, filed on November 16, 2017, GSWC requests authority pursuant to Resolution (Res.) No. W-4810, as well as the Commission's General Rule 7.3.3 and Water Industry Rule 8.5 of General Order 96-B (GO 96-B) to:

1. Recalibrate the monthly surcharge to customers of the Arden Cordova service area for the loan procured under the Safe Drinking Water State Revolving Fund (SRF) and American Recovery and Reinvestment Act (ARRA) program in order to provide adequate collection for loan payments and loan-related fees; and
2. Establish monthly surcharge for customers with fire sprinkler services.

BACKGROUND

GSWC, a California corporation, is a Class A water company that provides water service in portions of Los Angeles, Orange, San Bernardino, Ventura, Lake, San Luis Obispo, Sacramento, Imperial, Contra Costa and Santa Barbara Counties, and electric service in the Big Bear Lake area of San Bernardino County.

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

GSWC's Arden-Cordova District consists of two systems: (i) the Arden Manor area located approximately six miles northeast of Sacramento and (ii) Rancho Cordova and vicinity, both in Sacramento County. The ratebase for the two systems has always been treated as one. As of December, 2016, GSWC provides water service to 16,170 customers in its Arden-Cordova District.

In Decision (D.) 07-02-014, dated February 15, 2007, the Commission authorized GSWC to issue \$200 million of any combination of equity and debt securities, including notes and loans, for purposes permitted under § 817 of the Public Utilities Code, including construction, completion, extension or improvement of GSWC's facilities.¹ As of March 31, 2009, GSWC has issued \$70 million in stocks and notes under D.07-02-014 and has existing unused authority of \$130 million. In D.07-02-014, the Commission also authorized GSWC to encumber utility property in connection with the issuance of debt.

In 2009, GSWC was invited by the State Water Resources Control Board (SWRCB) to submit an application to receive \$9 million in funding and required that GSWC seek Commission authorization to establish customer water surcharges to repay the loan. Approximately \$4.5 million of the funding will be a SRF loan with an interest rate of 2.5017% and a term of 20 years. The remainder will be provided under the ARRA loan principal forgiveness process. The proceeds of the loan would be used to finance the installation of meters and connection retrofitting for 7,358 flat-rate customers in GSWC's Cordova system.

The ARRA funding program was signed into law by President Obama on February 17, 2009. Among its provisions, ARRA is providing approximately \$160 million to the SRF for infrastructure development of California's drinking water systems.

GSWC entered into a Funding Agreement with the SWRCB for an SRF/ARRA loan using its existing unused debt authority granted in D.07-02-014.

The Funding Agreement required GSWC to do the following:

¹ The financing fee of \$93,500, prescribed by Public Utilities Code §§1904(b) and 1904.1, was paid by GSWC on February 27, 2008.

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

1. Execution of a Fiscal Services Agreement with a fiscal agent who will act as trustee for loan repayment funds deposited and performs services pertaining to receiving deposits, remitting payments and accumulating the reserve.
2. Supplier or GSWC shall dedicate and apply customer water surcharges, as approved, or to be approved by the California Public Utilities Commission toward repayment of all amounts due under the Loan Agreement, until such obligation is paid in full.
3. At all times that any principal amount of the loan provided by the Funding Agreement is outstanding, Supplier or GSWC shall maintain an irrevocable standby letter of credit (LOC) naming the State as the beneficiary in an amount equal to not less than 80% of the outstanding principal balance of said loan. Such LOC shall be issued by Wells Fargo Bank, N.A., or a major United States commercial bank with a good credit rating, in form and substance satisfactory to State, and shall have a term of no longer than one (1) year. During the loan repayment term, Supplier shall renew the LOC each year no later than 30 days prior to the expiration date of the then outstanding LOC. So long as said loan is not then in default, the LOC may be reduced by Supplier on each anniversary so long as the amount remaining available under the LOC is not less than 80% of the outstanding principal balance of said loan. The LOC shall be drawable by the State upon presentation of a statement that Supplier has failed to comply with the terms and conditions of this Agreement and that the amount drawn under the LOC represents the amount that the State shall be entitled to draw. The State shall be entitled to draw only for the amount of principal and interest due and payable at the time of presentation whether by scheduled payment date, maturity, acceleration or otherwise and only if any applicable grace periods in favor of Supplier have expired prior to the draw. Subject to the other provisions of this Article B-3, the State's decision to make a presentation under the LOC shall be in the State's sole discretion. Supplier's failure or refusal to timely renew or replace the LOC to State's sole and absolute satisfaction not less than 30 days prior to the expiration date of the then outstanding LOC may be deemed by State, in its sole discretion, to be a material breach of this Agreement. State shall have the immediate right to draw on the LOC.

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

4. Supplier or GSWC shall submit to State a copy of the fully executed LOC in the amount of \$7,200,000.² State shall have no obligation or duty to disburse funds under the Funding Agreement unless and until Supplier has complied with this requirement to the satisfaction of the State.

By AL No. 1341, filed August 7, 2009, GSWC requested authority to institute a surcharge to the Arden-Cordova District customers to repay the \$4.5 million of the \$9 million loan. The surcharge, a dedicated source of payment, is a condition required in the Funding Agreement. At that time, GSWC estimated that the annual surcharge revenues required to service the SRF loan was approximately \$362,525.24 for the first ten years, and approximately \$329,568.40 until the loan is paid.

On October 23, 2009, the SWRCB sent GSWC a confirmation that the LOC shall be issued by Wells Fargo Bank, N.A. (WFB) and shall have a term of no longer than one (1) year. During the loan repayment term, GSWC shall renew the LOC each year no later than 30 days prior to the expiration date of the then outstanding LOC. So long as the loan is not default, the LOC may be reduced on each anniversary so long as the amount remaining available under the LOC is not less than 80% of the outstanding principal balance of the loan.

The amount of the LOC commission is based on the face amount of the LOC multiplied by the applicable margin with respect to the London Interbank Offered Rate (LIBOR) for the revolving credit facility, payable quarterly in arrears.

By Res. W-4810 dated December 17, 2009, the Commission authorized the monthly surcharge for the SRF loan as requested by GSWC in AL No. 1341, shown in the following table.³

² The Funding Agreement and the loan amortization schedule showed \$9,000,000 as the principal amount of the loan. The Terms of Repayment in the Funding Agreement stated that the State will invoice GSWC semiannually for principal and any interest payments. Such invoices will include a statement of the outstanding principal amount of the loan, the amount of payment which constitutes principal to be paid, the amount of payment which constitutes interest to be paid on the unpaid principal of the loan, and the amount of negative interest credited to principal (loan forgiveness). Accordingly, the LOC requirement stated the same principal amount of the loan of \$9,000,000 and 80% of which is \$7,200,000.

³ Res. W-4810 indicated that the surcharge rates are estimates and are based on the latest amortization schedule and information provided by GSWC and the SWRCB.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

Table 1
Monthly Surcharge Rates

<u>General Metered Service</u>		
<u>Meter Size</u>	<u>First 10 years⁴</u>	<u>Thereafter until end of loan repayment</u>
5/ 8 x 3/4-inch meter	\$ 0.94	\$ 0.86
3/4-inch meter	\$ 1.41	\$ 1.28
1-inch meter	\$ 2.35	\$ 2.14
1-1/ 2-inch meter	\$ 4.71	\$ 4.28
2-inch meter	\$ 7.53	\$ 6.84
3-inch meter	\$ 14.12	\$ 12.83
4-inch meter	\$ 23.53	\$ 21.39
6-inch meter	\$ 47.06	\$ 42.78
8-inch meter	\$ 75.29	\$ 68.45
10-inch meter	\$108.23	\$ 98.39

<u>Flat-rate Size</u>	<u>First 10 years⁵</u>	<u>Thereafter until end of loan repayment</u>
Single Unit	\$1.41	\$1.28
Duplex	\$1.41	\$1.28
Additional Detached Unit	\$0.00	\$0.00
Swimming Pool	\$0.00	\$0.00

Ordering Paragraph No. 2 of Res. W-4810 provided that GSWC shall file, in accordance with General Order No. 96-B, no later than nine months prior to the first semi-annual payment of the loan, an advice letter, which establishes the authorized monthly surcharge pursuant to Res. W-4810, updated as necessary, to reflect any changes in the SWRCB's amortization schedule.

On January 31, 2013, GSWC filed AL No. 1510 to implement a surcharge based on a principal amount of \$4.3 million, a 20-year term, and an interest rate of 2.5017%.⁶

⁴ Included a 10% reserve as required by the Funding Agreement.

⁵ Included a 10% reserve as required by the Funding Agreement.

⁶ Total \$8.6 million in funding under the SDWSRF and the ARRA.

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

According to GSWC, as of August 30, 2011, it installed a total of 6,228 meters and associated connection upgrade and retrofitting on residential service lines in the Arden-Cordova District. This placed GSWC in compliance with the mandate and provisions of California Water Code § 527 (a) (1), which requires an urban water supplier to install meters on all municipal and industrial service connections located within its service area on or before January 1, 2025. The first semi-annual payment of the loan was scheduled to be paid in September 2013.

On February 12, 2013, GSWC filed AL No. 1510-WA, a supplement to AL No. 1510-W to adjust the surcharge calculation for years 1-10. GSWC estimated that it will need revenues of \$151,081 (\$137,346 principal and interest, plus \$13,735 reserve fund) semi-annually or \$302,160 per year for the first ten years, and \$137,346 semi-annually or \$274,691 for the last ten years to make principal and interest payments.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

AL No. 1510-WA was approved and became effective March 3, 2013. Table 2 shows the authorized monthly surcharge that is currently in effect.

Table 2
Monthly Surcharge Rates

<u>General Metered Service</u>		
<u>Meter Size</u>	<u>First 10 years⁷</u>	<u>Thereafter until end of loan repayment</u>
5/ 8 x 3/4-inch meter	\$ 0.75	\$ 0.70
3/4-inch meter	\$ 1.13	\$ 0.85
1-inch meter	\$ 1.88	\$ 1.40
1-1/ 2-inch meter	\$ 3.75	\$ 3.50
2-inch meter	\$ 6.00	\$ 5.60
3-inch meter	\$ 11.25	\$ 10.50
4-inch meter	\$ 18.75	\$ 17.50
6-inch meter	\$ 37.50	\$ 35.00
8-inch meter	\$ 60.00	\$ 56.00
10-inch meter	\$ 86.25	\$ 80.50
 <u>Flat-rate Size</u>		
<u>Flat-rate Size</u>	<u>First 10 years⁸</u>	<u>Thereafter until end of loan repayment</u>
Single Unit	\$1.40	\$1.30
Duplex	\$1.40	\$1.30
Additional Detached Unit	\$0.00	\$0.00
Swimming Pool	\$0.00	\$0.00

⁷ Included a 10% reserve as required by the Funding Agreement.

⁸ Included a 10% reserve as required by the Funding Agreement.

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

When AL No. 1341 was filed in 2009 and AL No. 1510, as supplemented by AL No. 1510-WA in 2013, GSWC did not provide for the LOC fees in calculating the monthly surcharge. No details of the LOC fees were included in both filings.

In Res. W-4810, the Commission required GSWC to maintain adequate records to enable the Commission to audit the surcharge, revenues collected through the surcharge and payments of principal and interest on the loan, and fiscal agent and any other loan-related fees or costs and to audit and/or determine the reasonableness of the meter and retrofitting costs.

Ordering Paragraph No. 6 of Res. W- 4810 provides that GSWC shall establish a balancing account wherein it shall credit revenues collected through the surcharge and interest on deposits, and charge payments of principal and interest, and any fiscal agent or other loan-related fees or costs.

From March 2013 to June 2017, GSWC recorded a total of \$273,275 in LOC fees in a balancing account. For the period July 1, 2017 to September 30, 2017, WFB charged GSWC a total of \$10,684.77 in LOC fees based on a US dollar equivalent of LOC amount of \$5,394,835.77 (80% of the outstanding principal balance of the loan). The fee consisted of a fronting fee of \$1,723.35 ($\$5,394,836 \times .00125/360 \times 92$ days) and a commission fee of \$8,961.42 ($\$5,394,836 \times .0065/360 \times 92$ days).⁹

Based on GSWC's 2017 A+ rating, the commission fee from July 1, 2017 to September 30, 2017 is 65.0 basis points or 0.65% per annum. The fronting fee from July 1, 2017 to September 30, 2017 is 0.125% per annum.¹⁰

⁹ Fronting fee is calculated based of the amount available to be drawn, the actual number of days elapsed in a year of 360 days, pro-rated for any partial quarter, as applicable.

¹⁰ All LOC fees are calculated on Actual/360 basis.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

NOTICE AND PROTESTS

Pursuant to G.O. 96-B, Water Industry Rule 4.1, on November 16, 2017, GSWC served AL No. 1723-W to a service list for the Arden-Cordova District. Notice of AL No. 1723-W was made by publication in the Commission's Daily Calendar of November 20, 2017.

On November 27, 2017, GSWC notified its Arden-Cordova customers by mail of the proposed surcharge increase.

The Water Division (WD) received three letters protesting the proposed increase and questioning why the exiting surcharge is not generating enough revenues for loan payments.

On November 7, 2017, GSWC responded to the first protestant who did not provide any citations or proofs to his objection on the increase but nonetheless GSWC indicated that the protest will be taken into consideration.

On December 12, 2017, GSWC provided the second protestant the following information that he requested to determine if the surcharge increase is reasonable and appropriate:

1. The initial loan repayment surcharge was implemented by AL No. 1510-WA in compliance with Res. W-4810.
2. Current surcharge rates are not producing enough revenues to make future loan payments and Res. W-4810 permits surcharge adjustment subject to Commission review and approval.
3. When the current surcharge was calculated, the LOC and loan related fees were not included in the calculation.

On December 21, 2017, GSWC responded to the third protestant that claimed that no operating costs in excess of the water and the connection expenses from the utility lines to the users should be passed on customers and that all costs involved in allowing the utility to operate and run its business should remain the cost of the utility and not by ratepayers. GSWC explained to the customer that the current surcharge is not generating enough revenues to pay the loan and Res. W-4810 permits GSWC to recalibrate the surcharge.

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

DISCUSSION

GSWC established a balancing account whereby revenues collected through the surcharge are credited and any interest earned, and charged with payments of principal and interest on the loan and any fiscal agent or other loan-related fees. In this filing, GSWC projected that by December 31, 2017, the balancing account will have a negative \$412,749, which triggers the need to recalibrate the surcharge.

On November 16, 2017, GSWC filed AL No. 1723-W, to request authority to adjust the SRF loan surcharge in the Arden-Cordova District because the existing surcharge is not generating enough revenues to pay the loan payments and loan related costs.

When GSWC filed AL No. 1341-W and AL No. 1510-W to implement the surcharge for the SRF loan, GSWC based its calculation of the annual revenue requirement on the loan amortization for the principal and interest plus the reserve requirement. GSWC did not provide for the costs associated with the SWRCB's required LOC in the calculation of the surcharge rates.

LOC is a product banks offer to corporate customers to provide business financing. It is used to secure payment between a buyer and a seller. The more common LOC can only be modified when all parties involved agree to the modification. LOCs are frequently sought for large construction projects due to the fact they are not subject to claims of preference in the event of a bankruptcy. An LOC assures the seller of receiving payment because it is a guarantee by the issuing bank, the buyer's bank, that the bank will make payment in the event the buyer fails to do so. By providing the seller with assurance of payment, an LOC also assists the buyer in arranging a transaction that the seller might otherwise be reluctant to make.

Banks play a key role in LOC transactions. This is the main reason why LOC fees are higher compared to other payment methods used. Current fees could run anywhere from 1.5% to 8% of the value of the LOC. Current LOC fronting fee ranges from 0.125% to 0.15% per annum. The issuing banks open LOCs for the account of applicants and in favor of the beneficiaries, which is an expedient means to satisfy the requirements of the beneficiaries. The issuing banks have to bear certain amount of risks when they open LOCs. They also let the applicants benefit from their credit worthiness.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

A. Proposed Surcharge Adjustment

GSWC estimated that for the next 5 years, the annual revenue requirement to service the SRF loan is \$448,753. GSWC's current annual surcharge collection is approximately \$303,651. There is a shortfall of \$145,102 (\$448,753 less \$303,651) and a 48% surcharge adjustment (\$145,102 divided by \$303,651) is needed. Once the reserve requirement is accumulated within the next 5 years, the annual revenue requirement will be \$350,597 and a 20% decrease in the monthly surcharge is forecasted.

GSWC's proposed monthly surcharge is shown in the following table.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

Table 3
Monthly Surcharge Rates

Years 5 - 10

Size of Service Or Meter	Present Monthly Surcharge	Proposed Monthly Surcharge	Increase	Percent
5/8" x 3/4"	\$ 0.75	\$ 1.11	\$ 0.36	48%
3/4"	\$ 1.13	\$ 1.67	\$ 0.54	48%
1"	\$ 1.88	\$ 2.78	\$ 0.90	48%
1-1/2"	\$ 3.75	\$ 5.55	\$ 1.80	48%
2"	\$ 6.00	\$ 8.88	\$ 2.88	48%
3"	\$ 11.25	\$ 16.65	\$ 5.40	48%
4"	\$ 18.75	\$ 27.75	\$ 9.00	48%
6"	\$ 37.50	\$ 55.50	\$18.00	48%
8"	\$ 60.00	\$ 88.80	\$28.80	48%
10"	\$ 86.25	\$127.65	\$41.40	48%
Flat-Rate	\$ 1.40	\$ 2.07	\$ 0.67	48%

Years 11 - 20

Size of Service Or Meter	Years 5-10 Monthly Surcharge	Proposed Monthly Surcharge	Decrease	Percent
5/8" x 3/4"	\$ 1.11	\$ 0.89	\$ 0.22	20%
3/4"	\$ 1.67	\$ 1.34	\$ 0.33	20%
1"	\$ 2.78	\$ 2.23	\$ 0.56	20%
1-1/2"	\$ 5.55	\$ 4.44	\$ 1.11	20%
2"	\$ 8.88	\$ 7.10	\$ 1.78	20%
3"	\$ 16.65	\$ 13.32	\$ 3.33	20%
4"	\$ 27.75	\$ 22.20	\$ 5.55	20%
6"	\$ 55.50	\$ 44.40	\$ 11.10	20%
8"	\$ 88.80	\$ 71.04	\$ 17.76	20%
10"	\$127.65	\$102.12	\$ 25.53	20%
Flat-Rate	\$ 2.07	\$ 1.34 ¹¹		

¹¹ Although GSWC forecasts that the remaining flat-rate customers would be converted to metered service by year 11, it deemed it necessary to include a flat-rate surcharge for years 11 to 20 in its tariff as

Footnote continued on next page

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

The current monthly bill for a 5/8 x 3/4-inch metered customer using approximately 1700 cubic feet of water would increase by \$0.36 from \$38.77 to \$39.13, or 1% for the next 5 years.¹² Thereafter, the surcharge would decrease by 20% or an overall decrease in the monthly bill of 1%.

The current monthly bill for a single unit flat-rate customer would increase by \$0.67 from \$70.20 to \$70.87 or 1%.¹³ Thereafter, the overall decrease in the monthly bill will be 1%. GSWC projects there will be no flat-rate customers when the 11th year surcharge goes into effect as all customers would have been converted to metered service.

In this filing, GSWC also requests authority to establish the SRF surcharge for fire sprinkler service that was not included when the SRF surcharge first went into effect. A customer may be required by the local fire code enforcement to have a fire sprinkler system in their home. The connection would require a larger meter size to meet the fire flow demand. For example, a customer may need a 1-1/2" meter (higher flow) instead of a 3/4" meter for domestic use only. According to GSWC, the customers with fire sprinkler service are not included in the number of their residential and flat-rate customers.

GSWC proposes to charge the monthly surcharge to customers with fire sprinkler service as shown in the following table.

an assurance that there is a rate in place for any remaining flat-rate customers. However, once the metering is completed, the flat-rate surcharge will be terminated accordingly.

¹² The current monthly bill includes the monthly service charge of \$8.25, a quantity rate of \$1.751 per 100 cubic feet, and the current SRF surcharge of \$0.75.

¹³ The current monthly bill includes a flat rate of \$68.80 and the current SRF surcharge of \$1.40.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

Table 4
Monthly Surcharge Rates

Sprinkler Size of Service Or Meter	No. of Connections	Years 5-10 Monthly Surcharge	Years 11-20 Monthly Surcharge
1" to 5/8"	0	\$ 1.23	\$ 0.98
1" to 3/4"	0	\$ 1.73	\$ 1.38
1-1/2" to 3/4"	0	\$ 2.26	\$ 1.81
2" to 3/4"	0	\$ 2.48	\$ 1.98
1-1/2" to 1"	0	\$ 3.35	\$ 2.68
2" to 1"	0	\$ 3.55	\$ 2.84
4" to 1"	1	\$ 15.05	\$ 12.04
6" to 3/4"	0	\$ 12.96	\$ 10.37
6" to 1-1/2"	2	\$ 16.26	\$ 13.01
6" to 2"	2	\$ 19.37	\$ 15.50
6" to 3"	11	\$ 22.40	\$ 17.92
6" to 4"	2	\$ 31.87	\$ 25.50
8" to 5/8"	0	\$ 14.61	\$ 11.69
8" to 2"	4	\$ 21.55	\$ 17.24
8" to 3"	6	\$ 24.58	\$ 19.66
8" to 4"	1	\$ 34.05	\$ 27.24
8" to 6"	3	\$ 57.93	\$ 46.35

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

GSWC's proposed surcharge adjustment would generate the following surcharge revenues:

Table 5
Estimated Annual Surcharge Revenues

<u>Classification</u>	<u>5 to 10 Years</u>	<u>11 to 20 Years</u>
Metered Customer ¹⁴	\$383,356.72	\$348,814.79
Flat-Rate Customer ¹⁵	<u>65,243.14</u>	<u>0.00</u>
Total	<u>\$448,599.86</u>	<u>\$348,814.79</u>
Annual Revenue Requirement	<u>\$448,753.00</u>	<u>\$350,597.00</u>

We will require GSWC to submit a yearly report stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge collection, the amount of loan payment, the outstanding balance of the loan, and the overages or shortages in the balancing account in order for us to determine if the surcharge needs to be adjusted.

On November 13, 2017, WD sent a letter to the SWRCB to seek clarification of the LOC as an additional security requirement imposed on GSWC. WD indicated in the letter that the Commission has authorized many Safe Drinking Water Bond Act (SDWBA) and SRF loans but has not encountered one that required the borrower to secure a LOC. It was also pointed out to the SWRCB that GSWC's SRF loan has run for 5 years and the loan payments have been paid on time and the reserve properly accumulated. If the SWRCB can re-assess the LOC requirement and determine if it can be revoked prospectively, then future loan-related costs can be reduced. On November 20, 2017,

¹⁴ Includes fire sprinkler service.

¹⁵ Pursuant to California Water Code § 527 (a) (1), GSWC did not forecast any revenues from flat-rate customers because by year 11, GSWC intends to have converted all of its flat-rate customers to metered services.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

the SWRCB responded by email to WD's letter and indicated that the matter will be reviewed.

The LOC is a requirement of the SWRCB and is an integral part of the Funding Agreement. Since GSWC has to comply with the requirements of the State's funding program, the LOC fees should be considered in the determination of the annual revenue requirement and the calculation of the surcharge for the SRF loan.

The Commission is not a party to the LOC, but considering that GSWC is under our jurisdiction, it is the Commission's responsibility to provide the regulated utility the means to comply with the SWRCB's requirements.

Pursuant to the Funding Agreement, 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.

The requested increase in surcharge is necessary and will provide GSWC sufficient surcharge revenue to continue paying the SRF loan, accumulate the reserve requirement, and provide for the LOC fees.

At this time the Commission will authorize GSWC the authority to re-calibrate the surcharge by including the LOC fees and undercollection to meet future loan payments and loan-related fees. However, if in the future the SWRCB lifts the LOC requirement, GSWC should promptly adjust the surcharge rates. Changes in future surcharge rates should be accomplished by normal advice letter procedure subject to review and approval.¹⁶

The SRF surcharge is independent of the quantity rate and service charge that the customer pays and the surcharge serves only to repay the SRF loan and does not generate any profit to the utility or its owner. The plant financed by surcharge is permanently excluded from rate base for ratemaking purposes. General rate increase

¹⁶ A surcharge increase is authorized by Resolution and requires a Tier 3 filing. A surcharge decrease is subject to staff review and approval and requires a Tier 2 filing.

PROPOSED RESOLUTION

Resolution W-5158

March 1, 2018

WD

and rate of return are matters established during a rate case, distinct from a dedicated surcharge to pay a state funded loan.

In view thereof, we find no substantive evidence from the three customers' objection to the increase that should dissuade us from giving favorable consideration to GSWC's surcharge adjustment.

Because the requirement for surcharge recovery is a condition of the SRF loan, it is our responsibility to provide the regulated utility the means to comply with this condition.

We will authorize the monthly surcharge increase shown in Table 3 and Table 4 of this Resolution and also shown in Golden State Water Company's tariff attached to Advice Letter No. 1723-W, Schedule No. AC-1 Arden-Cordova District General Metered Service and Schedule No. AC-2 Arden-Cordova District Flat Rate Water Service. We re-iterate here that after 5 years or when the reserve requirement is fully accumulated, the surcharge for Years 11 to 20 should become effective. Likewise, if in the future the SWRCB lifts the LOC requirement, GSWC should promptly adjust the surcharge rates.

We will require GSWC to send WD on or before January 31, 2019, and annually thereafter, a report stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge collection, the amount of loan payment, the outstanding balance of the loan, and the overages or shortages in the balancing account. If the surcharge requires to be adjusted, GSWC should file a Tier 3 Advice Letter for an increase and a Tier 2 Advice Letter for a decrease.

SAFETY AND COMPLIANCE

In this filing, WD reviewed GSWC's request to adjust the surcharge rates pursuant to the requirements of the loan contract. There is no safety implication associated with AL No.1723-W.

COMMENTS

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

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

Accordingly, on January 26, 2018, the draft resolution was mailed to parties based on the service list attached to AL No. 1723-W, and to the customers who protested the filing, with comments due on February 15, 2018.

FINDINGS AND CONCLUSIONS

1. GSWC, a California corporation, is a Class A water utility subject to the jurisdiction of this Commission.
2. GSWC's Arden-Cordova District is made up of the Arden system and the Cordova system. The ratebase for the two systems has always been treated as one.
3. By the debt authority granted by D. 07-02-014, GSWC entered into a Funding Agreement with the SWRCB for an SRF/ARRA \$9 million loan consisting of a \$4.5 million SRF loan and the remainder under the ARRA loan principal forgiveness process to fund the installation of water meters.
4. By Res. W-4810, GSWC was authorized to implement a surcharge to the Arden-Cordova District customers to pay for the SRF loan and to accumulate a 10% reserve during the first ten years of the term of the loan.
5. As an additional security measure, the Funding Agreement required that at all times that any principal amount of the loan is outstanding, GSWC shall maintain an irrevocable standby LOC naming the State as the beneficiary in an amount equal to not less than 80% of the outstanding principal balance of said loan.
6. An LOC assures the lender of receiving payment in the event the borrower fails to do so.
7. The SWRCB approved Wells Fargo Bank, N.A. to issue the irrevocable standby LOC.
8. The SWRCB requires a fiscal agent to administer the surcharge revenues, interest earned, loan amortization payments and any loan-related fees and costs.
9. Res. W-4810 required GSWC to establish a balancing account to keep track of revenues collected through the surcharge, interest earned, and payments of principal and interest on the loan and other loan-related fees.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

10. GSWC inadvertently did not provide for the LOC fees when the surcharge was implemented in 2009.
11. Pursuant to the Funding Agreement, GSWC 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.
12. With surcharge recovery, the utility or its owners do not personally benefit from the loan.
13. The proposed surcharge will generate approximately \$448,600 annually for the next 5 years, and \$348,815 thereafter.
14. The proposed surcharge will increase the overall monthly bill of a typical metered and flat-rate customer by 1% for the next five years and thereafter a decrease in the overall monthly bill of a typical metered and flat-rate customer by 1% for ten years.
15. The reasonableness of the loan costs will be subject to review in a general rate case or other formal proceedings.
16. GSWC received three protests regarding the proposed surcharge adjustment and provided the protestors timely response.
17. The customer's protests did not provide any substantive evidence or reason for this Commission to reject GSWC's proposed surcharge adjustment.
18. The plant paid for by the surcharge and the loan forgiveness is not included in ratebase.
19. GSWC should continue maintaining adequate records of the surcharge collections, and payments of principal and interest and any fees or costs related to the loan.
20. On or before January 31, 2019, and annually thereafter, GSWC should file a report to the WD stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge collection, the amount of loan payment, the outstanding balance of the loan, and the overages or shortages in the

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

balancing account. If the surcharge requires to be adjusted, GSWC should file a Tier 3 Advice Letter for an increase and a Tier 2 Advice Letter for a decrease.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

THEREFORE, IT IS ORDERED THAT:

1. The surcharge recalibration shown in Tables 3 and 4 of this Resolution, and also indicated in Golden State Water Company's tariff sheets attached to this Resolution, Schedule No. AC-1 Arden-Cordova District General Metered Service and Schedule No. AC-2 Arden-Cordova District Flat Rate Water Service, is approved.
2. Golden State Water Company's surcharge to customers of the Arden Cordova service area for the loan procured under the Safe Drinking Water State Revolving Fund and American Recovery and Reinvestment Act program is subject to the following conditions:
 - a. Once the reserve requirement is fully accumulated, the surcharge rates for years 11 to 20 shall apply.
 - b. Any surplus accrued in the bank account shall be refunded or applied on behalf of the customers when ordered by the Commission.
 - c. On or before January 31, 2019, and annually thereafter, the utility shall file a report to the Commission's Water Division stating the changes in the number of connections by type of customer and by size of connections, the amount of surcharge collection, the amount of loan payments, the outstanding balance of the loan, and the overages or shortages in the balancing account. Changes in surcharge should be accomplished by filing a Tier 3 Advice Letter for an increase and filing a Tier 2 Advice Letter for a decrease.
 - d. The utility shall maintain adequate records to enable the Commission to audit the surcharge, revenues collected through the surcharge, payments of principal and interest on the loan, and fiscal agent and any other loan-related fees or costs.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

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 1, 2018. The following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

Schedule No. AC-1
Arden-Cordova District
GENERAL METERED SERVICE

SPECIAL CONDITIONS

TERRITORY

12. As authorized by the California Public Utilities Commission, a surcharge will be applied to customer bills for the remainder of a 20-year loan obligation that began in March 2013 to repay a \$8.6 million loan Golden State Water Company received under the Safe Drinking Water State Revolving Fund and the American Recovery and Reinvestment Act of 2009 from the California Department of Public Health to fund the Meter Installation and Retrofit Program in the Arden-Cordova District, pursuant to Commission Resolution W-4810. The surcharges below will go into effect on the effective date of Advice Letter 1723-W.

The table below shows the surcharge, by meter size, for each period:

Meter Size	Years 5-10	Years 11-20
5/8" x 3/4"	\$ 1.11	\$ 0.89
3/4"	\$ 1.67	\$ 1.34
1"	\$ 2.78	\$ 2.23
1-1/2"	\$ 5.55	\$ 4.44
2"	\$ 8.88	\$ 7.10
3"	\$ 16.65	\$ 13.32
4"	\$ 27.75	\$ 22.20
6"	\$ 55.50	\$ 44.40
8"	\$ 88.80	\$ 71.04
10"	\$127.65	\$102.12
Fire Sprinkler 1" to 5/8"	\$ 1.23	\$ 0.98
Fire Sprinkler 1" to 3/4"	\$ 1.73	\$ 1.38
Fire Sprinkler 1-1/2" to 3/4"	\$ 2.26	\$ 1.81
Fire Sprinkler 2" to 3/4"	\$ 2.48	\$ 1.98
Fire Sprinkler 1-1/2" to 1"	\$ 3.35	\$ 2.68
Fire Sprinkler 2" to 1"	\$ 3.55	\$ 2.84
Fire Sprinkler 4" to 1"	\$ 15.05	\$ 12.04
Fire Sprinkler 6" to 3/4"	\$ 12.96	\$ 10.37
Fire Sprinkler 6" to 1-1/2"	\$ 16.26	\$ 13.01
Fire Sprinkler 6" to 2"	\$ 19.37	\$ 15.50
Fire Sprinkler 6" to 3"	\$ 22.40	\$ 17.92
Fire Sprinkler 6" to 4"	\$ 31.87	\$ 25.50
Fire Sprinkler 8" to 5/8"	\$ 14.61	\$ 11.69
Fire Sprinkler 8" to 2"	\$ 21.55	\$ 17.24
Fire Sprinkler 8" to 3"	\$ 24.58	\$ 19.66
Fire Sprinkler 8" to 4"	\$ 34.05	\$ 27.24
Fire Sprinkler 8" to 6"	\$ 57.93	\$ 46.35

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

Schedule No. AC-1
Arden-Cordova District
GENERAL METERED SERVICE

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. For service covered by the above classification, if either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. AC-1, General Metered Service.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
4. Pursuant to Decision 05-07-045, to recover the balance as of January 31, 2005 in the Water Quality Litigation Memorandum Account, a surcharge of \$8.07 is to be added to the monthly service connection charge for 20 years. The surcharge amount will be recalculated once in every rate cycle, or more frequently if in any year the receipt of Water Availability Fee (WAF) monies will permit a reduction of \$0.50 or more in the monthly bill under this tariff schedule.
5. Pursuant to Decision No. 13-05-011, a surcharge of \$3.01 per customer, per month will be applied to all flat rate customer bills excluding customers that are receiving the CARW credit. This surcharge will offset the CARW credits and CARW administrative program costs recorded in the CARW Balancing Account.
6. As authorized by the California Public Utilities Commission a surcharge will be applied to customer bills for the remainder of a 20-year loan obligation that began in March 2013 to repay a \$8.6 million loan Golden State Water Company received under the Safe Drinking Water State Revolving Fund and the American Recovery and Reinvestment Act of 2009 from the California Department of Public Health to fund the Meter Installation and Retrofit Program in the Arden-Cordova District, pursuant to Commission resolution W-4810. The surcharges below will go into effect on the effective date of Advice Letter 1723-W.

	<u>Years 5-10</u>	<u>Years 11-20</u>
For a single unit of occupancy, including premises not exceeding 12,000 sq. ft. in area	\$2.07/mo.	\$1.34/mo.
For a duplex including premises not exceeding 12,000 sq. ft. in are	\$2.07/mo.	\$1.34/mo.

7. As authorized by the California Public Utilities Commission in D.17-03-001, an amount of \$0.140 per month will be applied to all flat rate customer bills for a 12-month period from the effective date of Advice Letter 1686-WA. This surcharge will amortize the cumulative balance recorded in the Well Study Balancing Account, as of June 2014.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5158 on all parties in these filings or their attorneys as shown on the attached lists.

Dated January 26, 2018, at San Francisco, California.

/s/JENNIFER PEREZ

Jennifer Perez

Parties should notify the Water Division, Third 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.

PROPOSED RESOLUTION

Resolution W-5158
WD

March 1, 2018

GOLDEN STATE WATER COMPANY ADVICE LETTER NO. 1723-W SERVICE LIST

By Mail:

Fair Oaks Water District
10317 Fair Oaks Blvd.
Fair Oaks, CA 95630

County Clerk
County of Sacramento
PO Box 839
Sacramento, CA 95812-0839

City of Folsom
50 Natoma Street
Folsom, CA 95630

By Email:

Sacramento Suburban Water
District
3701 Marconi Avenue, Suite 100
Sacramento, CA 95821
rroscoe@sswd.org

California-American Water
Co.
4701 Beloit Drive
Sacramento, CA 95838
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State Water Resources Control Board
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Carmichael, CA 95608
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Citrus Heights Water District
6230 Sylvan Road
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Orange Vale Water Co.
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