



October 5, 2018

Proposed Resolution W-5179

Agenda ID: 16907

To: All Interested Persons

Enclosed is Proposed Resolution W-5179 of the Water Division, which grants North Gualala Water Company authority to increase the safe drinking water bond act surcharge by \$15,742, or 8.23%, to provide adequate collection for future loan payments and to establish a balancing account. Proposed Resolution W-5179 is scheduled to appear on the November 8, 2018 Commission Meeting Agenda (ID#16907).

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-5179 via email to Water.Division@cpuc.ca.gov on or before October 25, 2018. **Please reference "Proposed Resolution W-5179" 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-5179."

/s/RAMI S. KAHLON

Rami S. Kahlon, Director
Water Division

Enclosures: Proposed Resolution W-5179
Certificate of Service
Service List

PROPOSED RESOLUTION

Resolution W-5179
WD

Agenda ID #16907

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W- 5179
November 8, 2018

RESOLUTION

(RES. W-5179) RESOLUTION GRANTING NORTH GUALALA WATER COMPANY, INC. AUTHORITY TO INCREASE THE SAFE DRINKING WATER BOND ACT SURCHARGE BY \$15,742, OR 8.23%, TO PROVIDE ADEQUATE COLLECTION FOR FUTURE LOAN PAYMENTS AND TO ESTABLISH A BALANCING ACCOUNT.

SUMMARY

This Resolution grants North Gualala Water Company, Inc. (NGWC) the authority requested in its Advice Letter (AL) No. 112.

In AL No. 112, filed on August 9, 2018, NGWC requests authority pursuant to General Order 96-B (GO 96-B) to:

1. Increase the surcharge for the loan procured under the Safe Drinking Water Bond Act program (SDWBA Loan #1) by \$15,742, or 8.23%, to generate sufficient funds for future loan payments.
2. Add a Safe Drinking Water Bond Act/ State Revolving Fund (SDWBA/SRF) loan balancing account in the utility's Preliminary Statement to track monies collected and costs pertaining to SDWBA and SRF loan accounts.

BACKGROUND

NGWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission. NGWC provides water service to approximately 1,029 metered customers in Gualala and vicinity, located approximately 15 miles south of Point Arena, Mendocino County.

NGWC's water system consists of, among other things, structures, wells, pumping equipment, reservoir tanks, mains, meters and hydrants.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

A. SDWBA Loan # 1

In Resolution (Res.) F-645, dated January 24, 1996, the Commission authorized NGWC to enter into a loan agreement with the Department of Water Resources (DWR) to borrow \$3,081,938 under the SDWBA. Surcharge rates were authorized to repay the loan principal and interest and the encumbrance of utility assets to secure the loan. The proceeds of the loan were used for the replacement of existing water mains, construction of water storage facilities including a pump station and emergency generators, and improvements to NGWC's surface water treatment plant.

Res. F-645 also authorized NGWC to collect a maximum service fee of \$1,000 to customers requesting future services to undeveloped lots (pro-rata basis from the effective date of the surcharge to the date of connection).

In Res. W-4108, dated August 6, 1998, the Commission granted NGWC authority to borrow an additional \$1,582,709 (for a total loan principal of \$4,664,647) under the SDWBA, to fund and complete NGWC's project that was originally approved in Res. F-645.¹ Due to higher than expected construction and design costs, a significant portion of NGWC's project was delayed.

The combined SDWBA loan carries an interest rate of 2.973%, a term of 35 years, and secured by NGWC's assets. Res. W-4108 adjusted the surcharge rates to repay the total loan amount of \$4,664,647.

¹ By letter dated April 14, 1998, DWR issued a commitment to NGWC for the additional loan of \$1,582,709 under the SDWBA. At that time, the Department of Health (DHS) Services verified that each project is part of the plan and that costs were reasonable before money can be released to NGWC. DHS found that all completed projects were consistent with the original plan and that they were performed at reasonable costs.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

The surcharge rates that became effective September 23, 1998 follows:

Table 1
Current Surcharge Rates

<u>Size of Meter</u>	<u>Per Meter Per Month SDWBA Surcharge</u>
5/8"x3/4"	\$ 20.50
3/4"	\$ 30.75
1"	\$ 51.25
1-1/2"	\$102.50
2"	\$164.00
3"	\$225.50
4"	\$287.00

The loan contract required the accumulation of a 10% reserve during the first 10 years of the loan and the execution of a fiscal services agreement with a fiscal agent who shall act as trustee for loan repayment funds deposited and perform services pertaining to receiving deposits, remitting payments and accumulating the reserve.

The loan contract specified that the borrower should meet the payments of the loan when due or to raise sufficient funds through increased charges to meet the loan payments.

Res. W-4108 also required NGWC to conduct a periodic review of the trust account and adjust as necessary, by the advice letter procedure, the surcharge rates to reflect changes resulting in overages or shortages in the balancing account. The Water Division (WD) also conducts its own review of trust accounts based on the utility's annual report filings.

By AL No. 52 that became effective July 24, 2000, NGWC reduced the surcharge rates due to an increase in its customer base and an accumulation of the reserve requirement. By AL No. 55 that became effective July 2, 2002, NGWC again adjusted and lowered the surcharge rates. By AL No. 57 that became effective January 29, 2003, NGWC made another adjustment of the surcharge rates.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

The surcharge rates currently in effect are as follows.

Table 2
Current Surcharge Rates

<u>Size of Meter</u>	<u>Per Meter Per Month SDWBA Surcharge</u>
5/8"x3/4"	\$14.70
3/4"	\$22.05
1"	\$36.75
1-1/2"	\$73.50
2"	\$117.60
3"	\$220.50
4"	\$367.50

In Res. W-4121 dated November 19, 1998, the Commission approved the modification of the service fee rate for new connections authorized in Res. F-645 based on the policy that new connections made within the first five years after completion of the SDWBA project will receive full benefit from the improvements. The maximum service fee for a 5/8 x 3/4" meter was increased from \$1,000 to \$1,230, and for a 3/4" meter from \$1,000 to \$1,845, etc.

B. Other Debt Authorization

In Res. No. W-4678, dated March 13, 2008, the Commission authorized NGWC to secure a \$100,000 planning loan under the State Revolving Fund (SRF Loan #2) to finance a study on NGWC's water system. The loan will be paid through a surcharge over a 5-year term. SRF Loan #2 matured on January 1, 2017 and by AL No. 103 that became effective December 14, 2016, NGWC terminated the surcharge and refunded to customers via surcredit the balance of \$5,562 in the trust account.

In Res. No. W-4778, dated July 30, 2009, the Commission authorized NGWC to secure a \$400,000 planning loan under the SRF (SRF Loan #3), to be used to conduct various studies and investigations for the improvement and maintenance of NGWC's water system. The planning loan will be paid for by surcharge authorized by the Commission over a 5-year term. As of December 31, 2017, SRF Loan #3 has an outstanding balance

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

of \$311,595. NGWC's SRF Loan #3 is provided here for informational purposes only and does not have any bearing to the surcharge increase for the SDWBA Loan #1 requested in NGWC's AL No. 112.

C. Proposed Surcharge Adjustment

In July 2018, WD conducted a review of NGWC's trust accounts and upon discussion with NGWC determined that the current surcharge rates for the SDWBA Loan #1 is only generating approximately \$191,041 in revenues. The annual revenue requirement consisting of principal and interest to service the SDWBA Loan #1 is \$206,783, resulting in an annual undercollection of approximately \$15,742 (\$206,783 less \$191,041). The 10% reserve requirement of \$206,783 had been fully accumulated. NGWC's annual reports indicated that since 2014, the number of active metered customers decreased from 1,052 to 1,029.

On August 9, 2018, NGWC filed AL No. 112, requesting authority to increase the SDWBA Loan #1 surcharge by 8.23% to eliminate the \$15,742 shortfall. The proposed increase follows.

Table 3
Proposed Surcharge Rates

Size of Service or Meter	Present Monthly Surcharge	Proposed Monthly Surcharge	Increase	Percent
5/8" x 3/4"	\$ 14.70	\$ 15.91	\$ 1.21	8.23%
3/4"	\$ 22.05	\$ 23.87	\$ 1.82	8.25%
1"	\$ 36.75	\$ 39.78	\$ 3.03	8.24%
1-1/2"	\$ 73.50	\$ 79.55	\$ 6.05	8.23%
2"	\$117.60	\$127.28	\$ 9.68	8.23%
3"	\$220.50	\$238.65	\$18.15	8.23%
4"	\$367.50	\$397.75	\$30.25	8.23%

With the proposed surcharge increase, a 5/8 x 3/4-inch metered customer's monthly surcharge would increase by \$1.21 from \$14.70 to \$15.91 or by 8.23%. Of the current 1029 metered customers of NGWC, there are 1,004 or 97.57% of residential customers with 5/8 x 3/4-inch meter size.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

D. SDWBA/SRF Loan Balancing Account

The conditions set forth in Res. F-645 and Res. W-4108 required that NGWC establish a balancing account to be credited with revenue collected through the surcharge and the accrued interest on the revenue. The balancing account should be charged with payments of principal and interest on the loan.

While NGWC periodically reviewed and adjusted the surcharge, it has not formally included the SDWBA/SRF Loan Balancing Account in its Preliminary Statement. By this filing, NGWC wishes to correct its omission and have the SDWBA/SRF Loan Balancing Account officially listed in its tariffs.

NOTICE AND PROTESTS

Pursuant to G.O. 96-B, Water Industry Rule 4.1, on August 9, 2018, NGWC served its AL No. 112 on its service list. Notice of AL No. 112 was made by publication in the Commission's Daily Calendar of August 15, 2018.

On September 6, 2018, NGWC notified its customers by mail of the proposed surcharge that is needed to have sufficient funds for future loan payments.

One customer concern was received on September 10, 2018 inquiring a) what the SDWBA Loan #1 surcharge is for, b) how long is the surcharge to be collected, and c) why are customers asked to pay the surcharge. The Water Division (WD) provided the customer the information pertaining to the SDWBA Loan #1, the surcharge required by the SWRCB to repay the loan, the terms of the loan, the improvements funded by the loan, and the difference between the utility's general metered quantity and service charges and the SDWBA Loan #1 surcharge. On September 12, 2018, NGWC also provided the customer the terms of the loan, the improvements funded by the loan and excluded in rate base, and the reason why the surcharge needs to be adjusted.

On September 12, 2018, another customer protested the proposed surcharge because it is unjust, it is greater than most consumer product inflation, and for financial reasons. NGWC responded explaining that the SDWBA Loan #1 to be paid by surcharge was authorized in the 1990's for water system improvements and the surcharge is adjusted downwards or upwards, as necessary to reflect changes in the number of customers.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

On September 14, 2018, NGWC published the proposed surcharge increase in The Independent Coast Observer, a weekly newspaper printed, published and circulated in the County of Mendocino and adjudged a newspaper of general circulation by the Superior Court of California.

DISCUSSION

As stated previously, NGWC's number of active metered customers decreased from 1,052 in 2014 to 1,029 in 2017. The annual surcharge revenues at current rates is estimated at \$191,041. The annual revenue requirement to service the SDWBA Loan #1 is \$206,783. A surcharge adjustment is therefore needed to provide for the current annual under collection of \$15,742.

Pursuant to the Rates and Charges under the SDWBA Loan Contract, 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. With a surcharge type of recovery, the utility or its owners do not personally benefit from the loan. All rate surcharges collected are deposited with a fiscal agent and the surcharge rates are adjusted when deemed necessary.

We find no substantive evidence from the customers' protests to NGWC's proposed surcharge increase that should dissuade us from considering NGWC's proposed surcharge adjustment. The requested increase in surcharge rates is unavoidable and necessary pursuant to the loan contract that requires the lender to raise sufficient funds through increased charges to meet the loan payments. Previous years' review of the SDWBA Loan #1 trust account had resulted in several reductions of the surcharge. This time, due to a decrease in customer base, NGWC requires a surcharge increase for future loan payments.

As set forth herein and pursuant to the requirements of the SDWBA Loan Contract, we will authorize NGWC's proposed surcharge increase.

The periodic review of the trust account is a tool that keeps a utility's surcharge overcollection or undercollection to a minimum and ensures that the reserve requirement remains in the trust for its intended purpose, i.e. to be used in case of insufficient balance in the trust for loan payment or to be used for the last two semi-annual payments of the loan.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

We will also authorize NGWC's request to add a SDWBA/SRF Loan Balancing Account in NGWC's Preliminary Statement to properly keep track of collections and disbursements pertaining to SDWBA and SRF loan accounts and comply with the requirements of Res. F-645 and Res. W-4108.

SAFETY AND COMPLIANCE

In this filing, WD reviewed NGWC's SDWBA Loan #1 trust account and concurs with NGWC's calculation of the surcharge adjustment. There is no safety implication associated with AL No. 112.

COMMENTS

Public Utilities Code § 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.

Accordingly, on October 5, 2018, the draft resolution was mailed to parties based on the service list attached to AL No. 112, with comments due on October 25, 2018.

FINDINGS AND CONCLUSIONS

1. NGWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission.
2. The SDWBA Loan #1 coupled with surcharge rates was used to finance the replacement of NGWC's existing water mains, construction of water storage facilities, and improvements of the surface water treatment plant.
3. Notice of the filing appeared on the Commission's Daily Calendar on August 15, 2018.
4. On September 6, 2018, NGWC notified its customers by mail of the proposed increase in surcharge rates. Two customer protests were received.
5. NGWC responded and provided the customers additional information as to why the proposed surcharge is reviewed periodically and why an increase is needed at this time.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

6. On September 14, 2018, NGWC published a public notice containing the proposed surcharge increase in the Independent Coast Observer, a local newspaper printed, published and circulated in the County of Mendocino. No other protests have been received.
7. 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 submitted by the utility.
8. Pursuant to the loan contract, 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.
9. NGWC needs to increase the SDWBA Loan #1 surcharge rates to provide the utility adequate collection for loan payments totaling \$206,783 annually.
10. With a surcharge type of recovery, the utility or its owners do not personally benefit from the loan.
11. The customers' protests did not provide any substantive evidence or reason for this Commission to reject NGWC's proposed surcharge increase.
12. NGWC had accumulated in full the required 10% reserve of \$206,783.
13. Res. F-645 and Res. W-4108 provide that NGWC establish a balancing account to be credited with revenue collected through the surcharge and interest earned and charged with payments of principal and interest on the loan.
14. It is reasonable to adjust the current surcharge rates to provide adequate collection for NGWC's future loan payments.
15. The periodic review of trust account is the mechanism that should be relied upon to adjust any actual over or under collection.
16. The surcharge method of recovery ensures that the loan will be repaid without financial stress to the water utility.

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 2018

17. The surcharge is for the repayment of the SDWBA Loan #1 and does not generate revenues for the utility.

THEREFORE, IT IS ORDERED THAT:

1. The surcharge rates shown in Table 3, page 5, of this Resolution and indicated in North Gualala Water Company's tariff attached to Advice Letter No. 112, Schedule No. 1, General Metered Service, SDWBA Surcharge, shall be approved.
2. Future changes in surcharge rates shall be accomplished by normal advice letter procedures.
3. North Gualala Water Company's request to add a SDWBA/SRF Loan Balancing Account in the utility's Preliminary Statement tariff attached to Advice Letter No. 112 shall be approved.

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 November 8, 2018; the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

PROPOSED RESOLUTION

Resolution W-5179
WD

November 8, 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-5179 on all parties in these filings or their attorneys as shown on the attached lists.

Dated October 5, 2018 at San Francisco, California.

/s/ROBIN BRYANT

Robin Bryant

Parties should notify the Division of Water and Audits, 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-5179
WD

November 8, 2018

NORTH GUALALA WATER COMPANY ADVICE LETTER NO. 112 SERVICE LIST

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Point Arena, CA 95468-0205

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