

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

California Water Service Company (U-60-W), a California corporation, to borrow funds under the State Revolving Fund, to encumber its property in connection with this borrowing, and to add a surcharge to water rates for Coast Springs District Dillon Beach ratepayers to repay the principal and interest on the borrowed funds.

Application 04-01-018
(filed January 8, 2004;
Amendment filed
January 19, 2005)

**OPIONION GRANTING CALIFORNIA WATER SERVICE COMPANY
AUTHORITY TO BORROW FUNDS FROM THE DEPARTMENT OF
HEALTH SERVICES WITH REPAYMENT THROUGH A
CUSTOMER SURCHARGE IN ITS COAST SPRINGS SERVICE AREA****1. Summary**

This decision authorizes the California Water Service Company (CWS) to enter into a loan contract with the Department of Health Services (DHS) and the Department of Water Resources (DWR) for the purposes of borrowing \$494,276 from the Safe Drinking Water State Revolving Fund (Fund). The proceeds of this loan will be used exclusively to finance the construction of a water treatment plant in the CWS Coast Springs service area. CWS is also authorized to impose temporary surcharges to water rates for ratepayers in the Coast Springs Service Area to repay the principal and interest on the borrowed funds.

2. Background

CWS is a Class A water company with service areas throughout the state. The CWS Redwood Valley District provides water service to approximately 255 customers in its Coast Springs service area (in Dillon Beach and Oceana Marin, Marin County). The Coast Springs system was acquired by CWS in 2000 in its merger with the Dominguez Water Company, as authorized in Decision (D.) 00-05-047.

The Fund was created by a federal capitalization grant for drinking water quality that provides low-interest loans to qualified utilities. In California, DHS is responsible for water quality standards and DWR is responsible for assessing a utility's financial need to meet the standards. DWR also acts as the lending agency and fiscal administrator for Fund loans and assesses the utility's ability to meet the loan obligations.

3. Loan Process

On December 18, 2000, DHS issued a compliance letter to CWS directing that the Coast Springs water treatment plant be improved. On March 27, 2002, DHS limited the number of customers in the Coast Springs system to 250, based partly on the capacity of the system's water treatment plant. Likewise, D.03-03-037 also limited the system to 250 customers, and directed CWS to complete necessary improvements.

By letter dated May 1, 2003, DWR invited CWS, as a qualified applicant, to apply for a Fund loan to upgrade the Coast Springs water treatment plant (DWR Project Number 211007-002). CWS submitted a statement of interest for the loan to DHS on May 22, 2003, and submitted the loan application on December 23, 2003. By letter to CWS dated September 8, 2004, DHS advised the

loan application had been accepted, and that loan approval was conditioned upon authorization by the Commission for the loan and surcharge.

The Coast Springs plant cost upgrades are estimated at \$600,000. CWS, through its predecessor companies, was granted a previous Fund loan for the Coast Springs service area in the 1980's of approximately \$350,000. (See D.87-10-047, D.98-09-022, and D.99-07-041.) The remaining balance from the previous loan is now approximately \$102,000, and maintained by CWS in a reserve account. CWS will use the new loan of \$494,276 augmented by the balance of the previous loan to finance the upgrades to the Coast Springs treatment plant.

4. Discussion

4.1 Loan

DHS conditioned approval of the loan upon CWS obtaining Commission approval and authorization to impose a customer surcharge for loan repayment. A public utility must satisfy certain conditions before entering into such loan agreements.

Section 817(b)¹ allows utilities to borrow funds for the construction, completion, or extension of improvement of utility facilities. The construction of the water treatment plants are necessary capital additions to satisfy DHS minimum water quality standards, and both are for the public good, and thus qualify under this provision. Pursuant to § 818, a public utility must also secure from the Commission an order authorizing the debt, stating the amount thereof and the purpose to which the proceeds thereof are to be applied, and that, in the

¹ All statutory references are to the Public Utilities Code.

opinion of the Commission, the money to be procured is reasonably required for the purposes specified in the order, such purposes not reasonably chargeable to operating expenses or to income. CWS, not yet signing the debt instrument, and the loan being conditioned upon CWS obtaining prior Commission approval, has satisfied this condition.

Pursuant to terms and conditions of the loan agreement with DWR, the loan will be invoiced semi-annually, secured by a first priority lien on property and assets and repaid over a 20-year period at an interest rate of 2.6%. CWS shall maintain a separate balancing account for the loan. The estimated semi-annual loan payment is \$15,926.

We find that CWS has satisfied the statutory conditions granting it the necessary authority to borrow \$494,276 for the Coast Springs project. CWS is authorized to execute a note and related security instruments with the DHS and DWR for the proposed loan.

4.2 Surcharge

Section 454 governs the conditions for customer surcharges and states that a public utility must present a showing for the surcharge and the Commission must find that the surcharge is justified. In this case, CWS bases its proposed surcharge to repay the loan on the size of individual service meters. A component of the surcharge includes a reserve to establish and maintain a reserve fund at a level that accumulates a reserve equal to two semiannual loan payments during the first ten years, to comply with DWR regulations.

The monthly surcharge for a typical residential customer with a 5/8 to 3/4 inch meter will be \$10.77 for the first ten years, and \$9.79/month for years 11-20 (an average 19% increase). The surcharge will be separately identified on each

customer's bill, showing a surcharge schedule by individual meter sizes (5/8-inch to 6-inches).

CWS shall also establish a balancing account to be credited with revenues collected through the surcharge to be charged with payment of principal and interest on the loan. CWS may adjust the surcharge periodically by advice letter to reflect changes in the number of connections and any excessive over- or under-collections in the balancing account.

To assure the availability of funds to repay the loan, CWS proposes, within 30 days after collection from customers, to deposit all rate surcharge revenue with a fiscal agent approved by DWR. CWS shall also exclude the surcharge revenue and utility plant financed through the surcharge from rate base for ratemaking purposes.

CWS has justified its proposed surcharge, as required by Section 454. It is in the public interest to authorize CWS to establish a surcharge as proposed in its application. CWS shall retain all invoices related to the Coast Springs treatment plant financed by the Fund loan to allow the Commission to confirm that the loan was properly used for the stated purpose and reimbursable through a customer surcharge. CWS shall also maintain adequate records to enable the Commission to audit the reasonableness of the surcharge, revenues collected through the surcharge, and payments of principal and interest on the loan.

4.3 Fees

Pursuant to § 1904(b), the Commission shall charge a fee for approving a certificate authorizing an issue of bonds, notes or other evidence of indebtedness. The fee is two dollars for each \$1,000 of the face value of the indebtedness, up to \$1 million; and one dollar for each \$1,000 of the face value for indebted amounts between \$1 million and \$10 million. The fee for the subject loan is \$988.

5. Categorization of Proceeding

CWS requested that this matter be categorized as ratesetting, and that in its view hearings are unnecessary. By Resolution ALJ 176-3127, dated January 22, 2004, the Commission preliminary determined the case was a ratesetting proceeding and that no hearing was expected.

Customers were notified of this application, pursuant to Rule 24 of the Commission's Rules of Practice and Procedures (Rules). No protests to the applications or objections to the ratesetting categorization were filed. We find that the proceeding is properly categorized and that hearings are unnecessary.

6. Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(3), the otherwise applicable 30-day period for public review and comment is being waived.

7. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner, and Kenneth L. Koss is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. In its Coast Springs service areas, CWS provides water service to approximately 255 customers in the vicinity of Dillon Beach and Oceana Marin, Marin County.
2. On December 18, 2000, DHS issued a compliance letter to CWS directing that the Coast Springs service area water treatment plant be upgraded.
3. By letter dated May 1, 2003, DHS invited CWS to apply for a Fund loan for the Coast Springs project.
4. By application dated December 23, 2003, CWS submitted Fund loan requests to DWR for the Coast Springs project.

5. By letter dated September 8, 2004, DWR accepted the Coast Springs loan application, conditioned on Commission approval of the loan and authorization for a customer surcharge to repay the loan.

6. CWS qualifies for the loan, as described herein.

7. There are no filed protests to this application.

Conclusions of Law

1. Approval of the Fund loan agreement for a water treatment plant in the CWS Coast Springs service area, and approval of a customer surcharge to repay the loan, is in the public interest and is otherwise proper pursuant to applicable provisions of the Public Utilities Code.

2. CWS should file an Advice Letter for authority to impose the surcharge.

3. CWS should retain invoices for the work completed and maintain adequate records to enable an audit be conducted on the reasonableness for the surcharge, revenues collected through the surcharge, and payments of principal and interest on the loan.

4. CWS should pay the fees determined in accordance with Section 1904(b) of the Public Utilities Code.

5. Today's order should be made effective immediately.

6. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. California Water Service Company (CWS) is authorized pursuant to Section 816, et seq. of the Public Utilities Code, to issue evidence of indebtedness in an amount not to exceed \$494,276 and to grant a security interest in its assets for capital expenditures within its Coast Springs Water System service area. A

copy of the promissory note and loan contract agreement shall be filed with the Water Division within 15 days after execution.

2. CWS shall retain all invoices and maintain adequate records related to the Coast Springs water treatment plant project financed by the Safe Drinking Water State Revolving Fund loan so that Commission staff may confirm the loan was properly used for the stated purpose and reimbursable through a customer surcharge.

3. CWS is authorized to file an Advice Letter imposing a surcharge on its customers to repay the indebtedness authorized in Paragraphs 1 of this order.

4. On or before January 1, 2007, and yearly thereafter, for as long as the surcharge is imposed, CWS shall send comparative reports to the Water Division 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 CWS balancing account. CWS shall indicate in the report if an advice letter will be forthcoming to reflect any changes in the surcharge.

5. CWS shall pay a fee totaling \$988.00 as required by Section 1904(b) of the Public Utilities Code.

Application 04-01-018 is closed.

This order is effective today.

Dated _____, at San Francisco, California.