

WATER/KPC/rhg

Decision 05-01-048 January 27, 2005

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of SAN JOSE WATER COMPANY U-168-W for authority to borrow \$1,660,250 under the Safe Drinking Water State Revolving Fund and to add a surcharge to water rates to repay the principal and interest on such loan.

Application 04-10-033  
(Filed October 26, 2004)

**OPINION ON BORROWING UNDER THE SAFE DRINKING WATER STATE REVOLVING FUND AND REPAYMENT THROUGH A SURCHARGE**

**I. Summary**

This order authorizes San Jose Water Company (SJWC) to enter into a loan contract with the Department of Water Resources (DWR) for (1) the purpose of borrowing \$1,660,250 from the Safe Drinking Water State Revolving Fund (SDWSRF) to be used to finance the design and construction of additional washwater handling facilities in the Montevina water treatment plant as required under the United States Environmental Protection Agency's (EPA's) Filter Backwash Recycling Rule (FBRR) and the California Cryptosporidium Action Plan, (2) to provide a stand-by letter of credit, as collateral for the loan, and (3) to impose a surcharge<sup>1</sup> to repay the loan, pursuant to Pub. Util. Code § 454, §§ 816 – 830, and 851<sup>2</sup>.

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<sup>1</sup> DWR requires that the Commission, by ordinance or resolution, dedicate a source of revenue to be used for the repayment of a SDWSRF loan.

<sup>2</sup> All statutory references are to the Public Utilities Code unless otherwise indicated.

The surcharge for a typical residential customer with a ¾-inch meter would be \$0.03 per month, an increase in the average monthly bill of approximately 0.07%.

## **II. Background**

SJWC is a Class A water utility subject to the jurisdiction of this Commission. SJWC provides water to a population of approximately one million residents through approximately 212,500 service connections. It serves the cities of Campbell, Saratoga, Monte Sereno, the Town of Los Gatos, portions of the cities of San Jose and Cupertino, and in the adjacent territory within the County of Santa Clara. SJWC provides water supply to its customers through several facilities, including its Montevina plant.

The Montevina plant serves approximately 100,000 people in the communities of Los Gatos, Monte Sereno, Saratoga, Campbell, and San Jose. It is located at the base of the Santa Cruz Mountains in Santa Clara County. Its source of supply is runoff water from winter storms. Water is filtered and disinfected in accordance with the requirements of the Interim Enhanced Surface Water Treatment Rule (IESWTR), and then either stored on site or used immediately in the distribution system<sup>3</sup>.

## **III. Notice and Protests**

Notice of the filing appeared on the Commission's Daily Calendar of October 29, 2004. On October 30, 2004, the proposed loan and surcharge was published in the San Jose Mercury News. On November 17, 2004, the customers were notified of the filing by bill insert as required by Rule 24 of the

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<sup>3</sup> Decision (D.) 03-07-013 dated July 10, 2003, as modified by D.04-08-022 dated August 19, 2004, granted SJWC the authority to borrow \$2,474,000 under the SDWSRF to finance the design and construction of an off-spec water diversion at the Montevina plant (SDWSRF Project No. 4310011-07) that would bring it in compliance with the IESWTR. The loan will be repaid by rate surcharge over a 20-year term at 2.39% annual interest rate.

Commission's Rules of Practice and Procedure (Rules). No protests have been received.

#### **IV. Discussion**

SJWC proposes to construct additional washwater handling facilities with enhanced solids separation (SDWSRF Project No. 4310011-06). The washwater is the water used to clean the filters during backwashing. After the filters are backwashed, the washwater is settled in the washwater lagoons and then returned to the treatment plant headworks. The plant improvements will utilize high rate lamella plate clarifiers in conjunction with improvements recently constructed to optimize the performance of the washwater lagoons. Pumping facilities with variable frequency drives will allow operators to carefully regulate the flow rate of treated washwater back to the headworks of the plant, and the integral automated sludge collection system will eliminate the possibility of sludge carryover that would result in a plant upset. This process was recommended in the Montevina Water Treatment Plant Capital Improvements Plan prepared for SJWC by Camp Dresser McKee, Inc. (CDM) in 1998 and is required under the EPA's FBRR and the California Cryptosporidium Action Plan.

The state Department of Health Services (DHS) required SJWC to submit an engineering study evaluating the alternative solutions available prior to the project receiving approval for an SDWSRF loan. DHS acts as the technical expert, and makes the determination if the project meets the requirements for SDWSRF funding. It also provides plan and specification review, and will conduct final inspection of the project.

On August 30, 2004, DWR issued a letter of commitment to SJWC indicating that \$1,660,250 has been reserved for the utility's washwater handling

project. The loan principal shall be repaid over a 20-year term with a 2.60% annual interest rate. The commitment is contingent on this Commission's approval of the loan and authorization to impose a customer surcharge for its repayment.

The following items are the key variables for the proposed improvements at SJWC's Montevina Treatment Plant:

1. The existing washwater handling facilities are unable to reduce the reclaimed water turbidity to below 2 Nephelometric Turbidity Units<sup>4</sup>, which is the operational goal of the State Cryptosporidium Action Plan.
2. EPA's FBRR went into effect on December 8, 2003. Under this rule, direct filtration plants, including Montevina, will be required to meet quality and treatment standards for all backwash water recycled through the plant. DHS will have latitude to put strong restrictions on plant capacity if recycled washwater standards are not met. According to the final rule published in 40 CFR Parts 9, 141, and 142, treatment of recycle streams is of utmost importance for direct filtration systems. By definition, direct filtration does not have a sedimentation or solids removal step in the primary treatment train. Any solids that enter the process are either deposited on the filter or travel through the filter. If the recycle flow is not adequately treated before being returned to the primary treatment train, significant numbers of the Cryptosporidium oocysts captured on a filter during a filter run will be returned to the plant. These oocysts are again loaded onto the filters, increasing the risk that disinfectant-resistant pathogens such as Cryptosporidium can slip through filtration, thereby posing a public health risk.
3. The existing facilities cannot process recycled washwater at a rate that permits the backwashing frequency necessary during periods of high raw water turbidity. Filters that exceed the necessary backwash interval are prone to particle breakthrough,

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<sup>4</sup> Represents the average volume scattering over a defined angular range. Both particle size and concentration of suspended solids, as well as dissolved solids, can affect this reading.

which increase the risk of passing *Cryptosporidium* oocysts into the treated water supply. In addition, particle breakthrough causes elevated finished water turbidity, increasing the risk of failing the primary standard for turbidity defined in the IESWTR.

4. The lamella plate clarifier system is needed to allow the frequency of backwashing that is required to run the plant at its maximum hydraulic capacity of 30 million gallons per day.
5. Increase in annual plant production is estimated to be as high as 10% (CDM study). Annual replacement costs of this water from the Santa Clara Valley Water District ranges from \$480,000 to \$600,000.

Many SDWSRF projects, including this Application, are built to comply with new drinking water regulations, and since the SDWSRF loan process is a lengthy one, it is not unusual for project construction to commence before the loan is funded. Additionally, many of the required elements in the SDWSRF application process cannot be completed until a construction contract is awarded and actual construction has commenced. DHS monitors the progress of the project throughout its planning, design and construction to ensure compliance with all SDWSRF rules.

SJWC states in the Application that it used money from its treasury to initially fund the project in the interest of being in compliance with the IESWTR. When the Application is approved, the SDWSRF loan will subsequently reimburse SJWC's treasury for the project costs. The project is currently still under construction and is not included in SJWC's current rates.

To-date, SJWC funded about \$1.2 million of the project cost as shown in Exhibit V, Schedule B to the Application:

<u>Description</u>	<u>Cost</u>
Engineering & Construction Management	\$ 64,241.76
Construction Contract	308,507.82
Contracted Labor	3,504.84
Consulting	190,188.46
Materials	487,707.11
Licenses & Permits	1,755.62
Construction Overhead	148,068.97
Capitalized Interest	35,000.00
Contingencies of \$120,500	0.00
Total	<u>\$1,238,974.58</u>

**A. Loan Approval**

Article 5 of Chapter 4 of the Public Utilities Act (which is Part 1 of Division 1 of the Pub. Util. Code) sets forth conditions a public utility must satisfy to issue debt. One condition is that the debt be for a permitted purpose listed in § 817.

That Section states, in relevant part, as follows:

**Section 817:** A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

**(b)** For the construction, completion, extension, or improvement of its facilities.

**(h)** For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the

commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

The construction of the additional washwater handling facilities with enhanced solids separation, being a necessary capital addition, is for the public good, and thus qualifies under this provision. Another permissible purpose is for the reimbursement of money actually expended from the treasury of a public utility not secured by or obtained from the issuance of debt or equity securities.

As a collateral for the loan, SJWC requests authority to provide DWR an annual stand-by Letter of Credit (LC) in the amount of 50% to 100% of the loan amount outstanding, which will be issued by a major California commercial bank with a good credit rating. In D.03-07-013 as modified by D.04-08-022, the Commission authorized SJWC to issue a letter of credit in lieu of a security interest in its assets to support a \$2,474,000 SDWSRF loan and stated “the substitution of a letter of credit for a security interest in SJWC’s assets accomplishes the same end result without unduly burdening SJWC or its ratepayers”.

Currently, SJWC has \$130 million privately placed senior debt that prohibit any of SJWC’s creditors from attaching liens to SJWC’s property or assets without making effective provision securing all the senior notes outstanding. SJWC refinanced and eliminated all its secured indentures in 1997. Securing any new debt by a lien on its assets would present an undue burden because the utility would have to secure all existing debts pursuant to existing senior note agreements.

In this Application, the LC will be renewed every year upon the anniversary of the contract execution date and will be reduced from time to time by the principal amount paid within the year.

Because the LC will be renewed every year, it is necessary that we authorize this arrangement pursuant to § 823(d), which states “no note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission”. The combined terms of the original LC and the yearly renewal will exceed 12 months and this facility will take over, discharge, or retire in part SJWC’s liability to DWR. There are no proceeds to SJWC.

Because long-term borrowings under the SDWSRF generally represent a much lower interest rate than equity or other forms of debt, it is to the utility’s advantage and that of its customers to avail itself of such funds. SJWC should be authorized to execute a note and related LC with DWR for the proposed loan.

**B. Surcharge**

Section 454 governs the conditions upon which a customer surcharge may be established. Those conditions are that a public utility must present a showing for the surcharge and that the Commission must find the surcharge is justified.

According to DWR’s letter, the loan principal amount of \$1,660,250 shall be repaid over a 20-year term with a 2.60% annual interest rate. The estimated surcharge rates are \$58,843<sup>5</sup> semi-annually or \$117,686 per year for the first ten years and \$53,493 semi-annually or \$106,986 for the last ten years to make the principal and interest payments on the loan.

SJWC’s current rates became effective August 24, 2004 by Advice Letter No. 349 pursuant to D.04-08-054.

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<sup>5</sup> Includes \$5,350 or 10% reserve in accordance with DWR loan contract security requirements that provision should be made to accumulate sufficient funds to make the semi-annual payment when due. This reserve is to be accumulated during the first ten years.

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The proposed surcharges by meter size are listed in the table below:

<u>Meter Size</u>	<u>Year 1-10 Monthly Surcharge</u>	<u>Year 11-20 Monthly Surcharge</u>
5/8 x 3/4-inch	\$0.03	\$0.03
3/4-inch	0.03	0.03
1-inch	0.06	0.05
1-1/2-inch	0.12	0.11
2-inch	0.19	0.17
3-inch	0.35	0.32
4-inch	0.58	0.53
6-inch	1.16	1.05
8-inch	1.86	1.69
10-inch	2.67	2.42

For the first ten years the surcharge for the typical residential customer with a 3/4-inch meter would be \$0.03 per month, an increase in the average monthly bill of about 0.07% for approximately 70.9% of SJWC's customers.

At the current number of customers, the surcharge would increase SJWC's annual gross revenues as follows:

Gross Revenues pursuant to D.04-08-054	\$163,374,200
Annual Surcharge Requested	<u>117,686</u>
Total Estimated 2004 Revenue including Surcharge	<u>\$163,491,886</u>

We are aware that SJWC will not be able to obtain the SDWSRF loan until it demonstrates that it has the source of funds to be used for repayment of the loan and that such dedicated funds are documented in an order or resolution. To the extent that the source of funds requirement remains a condition in this low-cost funding, SJWC's financing request cannot be processed and granted without a surcharge authorization.

The ratepayers ultimately pay for all water system requirements and improvements, regardless of the manner in which they are financed. If the utility were able to borrow the money to make the water system improvements entirely from regular commercial sources, it would be far more expensive for the ratepayers than the low cost state funded loan. Likewise, if the utility owners invested their own funds to pay for the water system improvements they would be entitled to similar earnings on such funds.

We will authorize the surcharge with the following conditions:

1. The loan repayment surcharge shall be separately identified on customers' bills. The utility plant financed through the surcharge shall be permanently excluded from rate base for ratemaking purposes.
2. SJWC shall establish a balancing account to be credited with revenues collected through the surcharge and to be charged with payments of principal and interest on the loan.
3. SJWC shall deposit all rate surcharges collected with a fiscal agent approved by DWR. Such deposits shall be made within 30 days after the surcharges are collected from customers.
4. In accordance with DWR requirements, the 10% reserve shall be deposited with a fiscal agent to accumulate a reserve of two semi-annual payments over a 10-year period. Earnings of the reserve fund, net of charges for the fiscal agent's services, shall be added to the fund. Net earnings of the reserve fund, together with surcharge amounts collected from customers, shall be used to meet the semi-annual loan payment.
5. The surcharge shall be adjusted periodically to reflect changes in the number of connections. Such changes in future rates shall be accomplished by normal advice letter procedures.
6. The surcharge to repay the loan shall last as long as necessary to repay the loan. The surcharge shall not be commingled with other utility charges.

7. Any surplus accrued in the bank account shall be refunded or applied on behalf of the customers when ordered by the Commission.
8. A service fee shall be chargeable to customers requesting future services to currently undeveloped lots and shall be the accumulated total of the monthly surcharge as applied to the property being furnished water service from the initial effective date of the surcharge to the date of connection. The maximum service fee shall be \$2,000. The service fee shall be due and payable upon connection of water service to the property. This service fee must be deposited with the fiscal agent within 30 days after it is collected from customer. Thereafter the customer shall pay the applicable tariff rates plus the monthly surcharge.
9. SJWC shall maintain adequate records pertaining to the amounts expended for the project and to what extent it has drawn upon its income to pay for the cost of the project.

The proposed surcharge rates are based on the loan amount, the annual revenue requirement, and the current number of customers. The surcharge rates may be adjusted according to changes, for example, in service connections. The surcharge rates will be adjusted by advice letter filing and subject to our General Order 96 approval.

Section 1904(b) states that no fee needs to be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has theretofore been paid to the Commission. Because the stand-by LC is intended to take over, discharge, or retire in part SJWC's liability to DWR and there are no proceeds derived by SJWC from this facility, the § 1904(b) fee will be assessed only on the principal loan amount of \$1,660,250.

**V. Financial Information**

For the twelve months ended June 30, 2004, SJWC reported total operating revenues of \$152,223,941 and net income of \$14,190,923, as shown in its Statement of Income (unaudited), attached as Exhibit I to the Application. The Balance Sheet (unaudited) at June 30, 2004 is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$413,302,534
Utility Plant Held for Future Use	183,636
Non-Utility Property	267,100
Current Assets	31,997,288
Other Assets	<u>21,172,760</u>
 Total Assets	 <u><u>\$466,923,318</u></u>
 <u>Capitalization and Liabilities</u>	
Common Shareholders' Equity	\$134,238,494
Long-Term Debt	<u>130,000,000</u>
Total Capitalization	<u>\$264,238,494</u>
 Total Current Liabilities	 <u>\$ 23,439,634</u>
Deferred Income Taxes	\$ 25,674,389
Unamortized Investment Tax Credit	1,944,600
Postretirement Benefits	7,072,837
Liability of asset retirement obligation	1,199,450
Reserve for Injuries & Damages	502,934
Advances for Construction	77,102,231
Contributions in Aid of Construction	64,464,375
Deferred Revenue	<u>1,284,374</u>
Total Other Liabilities	<u>\$179,245,190</u>
 Total Capitalizaion & Liabilities	 <u><u>\$466,923,318</u></u>

SJWC's capital ratios as of June 30, 2004, shown as Exhibit III to the Application, are presented below as recorded and adjusted to give pro forma effect to the \$1,660,250 SDWSRF loan:

	<u>Recorded</u>		<u>Adjustment</u>		<u>Proforma</u>	
Long-Term Debt	\$130,000,000	49.20%	\$1,660,250	\$131,660,250	49.52%	
Short-term Debt	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	
Total Debt	\$130,000,000	49.20%	\$1,660,250	\$131,660,250	49.52%	
Preferred/ Preference Stock	0	0.00%	0	0	0.00%	
Common Equity	<u>\$134,238,494</u>	<u>50.80%</u>	<u>0</u>	<u>\$134,238,494</u>	<u>50.48%</u>	
Total	<u>\$264,238,494</u>	<u>100.00%</u>	<u>\$1,660,250</u>	<u>\$265,898,744</u>	<u>100.00%</u>	

## VI. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3142 dated November 19, 2004, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3142.

Notice of the Application appeared in the Commission's October 29, 2004 Daily Calendar. Customers were notified of this Application pursuant to Rule 24 of the Commission's Rules. There is no objection to the ratesetting categorization of this Application and there were no protests to the Application. A hearing is not necessary.

## **VII. Comments on Draft Decision**

This is an uncontested matter in which the Decision pertains solely to a water company. Accordingly, pursuant to § 311(g)(3), the 30-day period for public review and comment does not apply.

## **VIII. Assignment of Proceeding**

Kevin P. Coughlan is the assigned Examiner in this proceeding.

## **Findings of Fact**

1. The proposed additional washwater handling facilities are needed to provide safe drinking water and reliable water supply in accordance with the requirements of DHS.
2. The SDWSRF loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring the \$1,660,250 debt capital.
3. With a state-funded and rate surcharge type of recovery, the utility or its shareholders do not personally benefit from the SDWSRF loan.
4. The DHS, responsible with the California Public Utilities Commission for the public health and safety of California residents, is best equipped to establish and enforce water treatment requirements.
5. SJWC will not be able to obtain the SDWSRF loan until SJWC demonstrates to DWR that the Commission has approved a rate surcharge in an amount necessary to project compliance with the terms and conditions of the loan.
6. DHS has approved SJWC's proposed project.
7. The proposed borrowing is for proper purposes.

8. SJWC's proposed surcharge for the SDWSRF loan would generate approximately \$117,686 annually for the first ten years to repay the principal and interest on the loan, and to accumulate a 10% debt reserve and \$106,986 from years ten to the end of the term.
9. The establishment of a reserve equal to two semi-annual loan payments is required by DWR administrative regulations.
10. The proposed surcharge rates for the first 10 years will increase the water rates by \$0.03 per month for approximately 70.9% of SJWC's customers.
11. SJWC advanced the funds to construct the additional washwater handling facilities considering its importance to its water system and in the interest of being in compliance. The project is currently under construction.
12. The cost of the project is not included in SJWC's rates.
13. SJWC's senior note agreements prohibit any of SJWC's creditors from attaching liens to SJWC's property or assets without making effective provision securing all senior notes outstanding.
14. The securing of all senior notes outstanding would present an undue burden on SJWC.
15. DWR is agreeable to a stand-by letter of credit in lieu of a security interest in SJWC's assets.
16. Authorizing SJWC to secure a stand-by letter of credit as security for the loan is not adverse to the public interest.
17. The surcharge rates appearing on page 9 of this decision are based on the amount of the revenue requirement, meter size, and the number of customers.

18. The surcharge rates to be established to repay the loan should last as long as necessary to repay the loan. Surcharge revenues would not be commingled with other utility charges.
19. The utility plant financed by the loan should be permanently excluded from rate base for ratemaking purposes.
20. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility shareholders. The surcharge rates should be adjusted periodically to reflect changes in the number of connections.
21. SJWC should review annually the surcharge rates and adjust as necessary, by the advice letter procedure, the surcharge rates to reflect changes resulting in overages and shortages in the bank account.
22. Vacant or undeveloped lots will benefit from the expenditures being made from the proceeds of the loan. The benefits include potentially increased property values and the availability of potable water furnished by a public utility, which meets health standards.
23. It is reasonable to establish a service fee for new connections pertaining to vacant or undeveloped lots since these lots will benefit from these improvements.
24. A maximum lump sum service fee of \$2,000 payable upon connection by customers requesting future services to vacant or undeveloped lots is reasonable.
25. SJWC should pay the fee determined in accordance with Section 1904(b).

**Conclusions of Law**

1. This is a ratesetting proceeding.
2. A hearing is not necessary.
3. Approval of the SDWSRF loan for the construction of additional washwater handling facilities 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 Pub. Util. Code.
4. SJWC should maintain adequate records to facilitate review of amounts expended and amounts drawn upon its income to pay for the cost of the project.
5. Refunding of short-term debt should comply with the provisions of § 823(d).
6. SJWC should pay the fee determined in accordance with § 1904(b). The amount subject to the fee is \$1,660,250. The fee is determined as follows:  $(\$2 \times (1,000,000/1,000)) + (\$1 \times (660,250/1,000)) = \$2,660$ .
7. Pursuant to § 1904(b), no fee need be paid on any portion of any issue that would be used to guarantee, take over, rend, discharge, or retire any evidence of indebtedness on which a fee has been paid to the Commission.
8. The following order should be effective on the date of signature.

**ORDER**

**IT IS ORDERED** that:

1. San Jose Water Company (SJWC) is authorized, pursuant to § 816 et seq. of the Public Utilities Code, to issue evidence of indebtedness in an amount not to exceed \$1,660,250 for capital expenditures within its service area and to

provide a security instrument such as an annual stand-by letter of credit to support the loan. A copy of the promissory note and loan contract agreement shall be filed with the Water Division within 15 days after execution.

2. SJWC shall retain all invoices related to the design and construction of additional washwater handling facilities financed by the Safe Drinking Water State Revolving Fund loan so that Commission staff may confirm that the loan was properly used for the stated purpose and paid for through a customer surcharge.

3. SJWC shall maintain adequate records to facilitate review of amounts expended and amounts drawn upon its income to pay for the cost of the project.

4. SJWC shall maintain adequate records to enable Commission staff to audit revenues collected through the surcharge, and payments of principal and interest on the loan.

5. SJWC is authorized to file in accordance with General Order No. 96-A, or its successor, at least 180 days prior to DWR's first billing, an advice letter which implements the rate surcharges to customers (as discussed in Section IV. B of the foregoing Opinion) to repay the indebtedness authorized in Ordering Paragraph 1.

6. The authority granted herein shall be subject to the conditions enumerated in Section IV. B of the foregoing Opinion.

7. On or before July 31, 2005, and semi-annually thereafter, for as long as the surcharge is imposed, SJWC shall send a comparative report to the Director of the Water Division stating 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

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bank account. SJWC shall also indicate in the report if an advice letter will be forthcoming to reflect changes in the surcharge rate.

8. The authority granted by this order shall become effective when SJWC pays \$2,660, the fee required by Public Utilities Code 1904(b).

9. Application 04-10-033 is closed.

This order is effective today.

Dated January 27, 2005, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
GEOFFREY F. BROWN  
DIAN M. GRUENEICH  
SUSAN P. KENNEDY  
Commissioners