

WATER/KPC/KOK/DLW/AML

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
AUDIT AND COMPLIANCE BRANCH

RESOLUTION W-4633
FEBRUARY 15, 2007

R E S O L U T I O N

RESOLUTION W-4633. HILLVIEW WATER COMPANY, INC.
ORDER AUTHORIZING HILLVIEW WATER COMPANY, INC.
TO SECURE AN ADDITIONAL \$400,000 UNDER THE SAFE
DRINKING WATER STATE REVOLVING FUND LOAN
PROGRAM, WITH CONDITIONS.

By Advice Letter No. 78 filed on December 14, 2006.

SUMMARY

This Resolution grants Hillview Water Company, Inc., (Hillview) the authority requested in Advice Letter (AL) No. 78, with conditions.

Hillview requests authority pursuant to §§ 816 through 851 of the Public Utilities Code and Rule 33 of the Commission Rules of Practice and Procedures to:

1. Secure an additional \$400,000 under the Safe Drinking Water State Revolving Fund (SDWSRF) loan program;
2. Impose the surcharges authorized in Decision (D.) 02-11-015; and
3. Review the surcharges and adjust them if necessary six months after the first loan payment is made.

Notice of AL No. 78 was made by publication in the Commission's Daily Calendar of December 15, 2006. Hillview is the only party to this filing. No protests have been received.

BACKGROUND

Hillview, a California corporation, is a Class C water utility under the jurisdiction of this Commission. Hillview owns and operates the Oakhurst and

Sierra Lakes (OSL) water system, which serves the area in and around Oakhurst in the foothills of eastern Madera County. The water system serves approximately 996 connections (about 865 with ¾" meter size). In addition, the community hosts an estimated one million visitors per year that pass through on their way to Yosemite National Park.

On September 8, 1997, the Department of Health Services (DHS) issued Hillview Compliance Order No. 03-11-970-002 for failure to comply with the Uranium Maximum Contaminant Levels (MCL) and failure to insure that customers are provided with a reliable and adequate source of pure, wholesome, healthful and potable water. DHS ordered Hillview, among other things, to develop a project that will correct the water quality problem.

On November 30, 1999, DHS completed a review of the water system and directed Hillview to develop additional source capacity.

On May 10, 2000, Hillview submitted to DHS a long-term construction loan application for the OSL water system. DHS approved the funding for the project on or about August 17, 2000. Pursuant to DHS' Technical Project Report approved on August 17, 2000, Hillview does not have adequate production, treatment, and distribution capacity in the OSL water system.

Consequently, on August 19, 2002, the Department of Water Resources (DWR) executed a contract with Hillview for a \$3,408,447 construction loan at a zero-percent interest, payable in 30 years. The proceeds of the loan are to be used for construction of new wells, new raw water transmission line, new treated water transmission line, upgrade of treatment plants, new storage tank, and other water system improvements for the OSL water system.

Decision (D.) 02-11-015 dated November 7, 2002 in Application (A.) 00-10-043 granted Hillview authority to borrow up to \$3,408,447 under the SDWSRF program; encumber its assets in connection with the loan; and to collect a surcharge to cover the loan debt service and a reserve requirement.

Pursuant to Hillview’s 2005 Annual Report, the utility generated total operating revenues of \$1,124,882 and net income of \$58,569 for the year 2005. Schedule A of the 2005 Annual Report shows the company’s balance sheet as of December 31, 2005, which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$4,189,320
Current and Accrued Assets	914,551
Other Assets	<u>121,855</u>
 Total Assets	 <u>\$5,225,726</u>
 <u>Liabilities & Equity</u>	
Corporate Capital and Surplus	\$ 5,340
Long-Term Debt	1,405,808
Current and Accrued Liabilities	1,462,595
Deferred Credits	576,429
Net Contributions in Aid of Construction	<u>1,775,554</u>
 Total Liabilities & Equity	 <u>\$5,225,726</u>

DISCUSSION

By AL No. 78, Hillview requests an additional \$400,000 in loan authority, to fund the completion of the water system improvements ordered by DHS. Hillview states that the construction costs have increased due to delays and changes in the project that are beyond its control, and the need to obtain more water than had been projected. ^[1]

Specifically, the County of Madera Road Department made a number of changes and revisions to the plans submitted for the raw water and treated water pipeline encroachment permits. Not only did this result in significant time delays to revise the plans and resubmit them for approval, but the County also made increased requirements with regard to the road right-of-way construction and road repair which increased construction costs. In addition, the cost of pipe increased drastically from the time of the most recent Budget and Expenditure

¹ This is supported by a letter, dated December 14, 2006, from the Department of Water Resources, increasing the construction loan amount from \$3,408,447 to \$3,808,447 and extending the project completion date from August 31, 2006 to October 31, 2007, and providing an Amended Funding Agreement for \$3,808,447 (Contract No. SRF02CX302, Amendment A-1). As of January 31, 2007, Hillview states that the project is about 67% complete.

Summary to the time Hillview finally obtained Encroachment Permits. Because of these various delays and increase costs, it was necessary for Hillview to re-bid the SDWSRF project.

In addition to the increases in construction costs for the Raw Water and Treated Water Pipelines, Hillview indicates it has increased costs associated with the source development. In addition, there are additional costs for PG&E extensions to provide power for the four additional wells and increased costs for installation of pumps, electrical & pump controls.

Hillview also points out that the shortfall in equipping the new wells is a result of drilling deeper wells than anticipated and obtaining more water than anticipated which requires larger pumps, pipe, wire and control panels. The original project projections were for 500 gallons per minute (gpm) and the new well production totals 736 gpm.

The project costs are summarized as follows:

Raw Water Pipeline		
Original:	\$ 829,200	
New:	<u>1,297,000</u>	
Difference		\$ 467,800
Treated Water Pipeline		
Original:	\$1,067,320	
New:	<u>1,492,600</u>	
Difference		\$ 425,280
Equipping New Wells		
Original:	\$ 100,000	
New:	<u>143,200</u>	
Difference		\$ <u>43,200</u>
Total shortfall in funding:		\$ 936,280
Less: Eliminated treatment plant upgrades		<u>541,917^[2]</u>
Total SRF Project Shortfall		\$ <u>394,363</u>

² By letter dated November 6, 2006, DHS concurred with the elimination of the Sierra Lakes treatment plant upgrades (\$541,916.50) from the original SDWSRF project and to use that amount, which is part of the \$3,408,447 loan, to fund part of the project shortfall.

The new construction cost was subsequently approved by DHS, and accordingly, DWR, who administers the state revolving fund, increased the construction loan from \$3,408,447 to \$3,808,447, and extended the project completion date to October 31, 2007.

We recognize that Hillview will not be able to complete the majority of its construction project without the additional funding, and we find that Hillview has demonstrated a reasonable need for the additional \$400,000. We approve Hillview's financing request to increase the amount of the SDWSRF loan from \$3,408,447 to \$3,808,447, an increase of \$400,000.

Where DHS issues compliance orders to water utilities under our jurisdiction, as it has in this instance, it is the Commission's responsibility to provide the regulated utility the means to comply with such an order.

Hillview states in the filing that it will not at this time, request an increase in the currently approved surcharges for the additional funding. In lieu of this, Hillview requests that the surcharges authorized in D.02-11-015, be implemented on the utility's February 25, 2007 billing.

Hillview projects that customer growth over the next year and one-half may result in a larger customer base, which may make up for part of the shortfall in surcharge due to the increase in costs and new loan amount. In consideration of this, Hillview requests a review of the surcharges six months after the first loan payment is made, to determine whether any surcharge adjustment is still needed. At that time, Hillview should provide an accounting of the amount of surcharge collected, the trust account balance and record of the DWR payment(s).

As ordered in D.02-11-015, Hillview shall, upon completion of the project, institute a surcharge to customers of the OSL districts to repay the loan. The surcharges authorized in D.02-11-015, for the original \$3,408,447, are as follows:

<u>Size of Service Or Meter</u>	<u>Years 1-10 Monthly Surcharge</u>	<u>Years 11-29 Monthly Surcharge</u>
¾-inch meter	\$ 7.97	\$ 7.25
1-inch meter	13.29	12.08
1 ½-inch meter	26.57	24.16
2-inch meter	42.52	38.65
3-inch meter	79.72	72.48
4-inch meter	132.87	120.79

6-inch meter	265.75	241.59
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The annual requirements for debt service for the \$3,408,447, plus a 10% reserve for years 1-10, is estimated at \$125,231 and \$113,846 for years 11-29. With the additional \$400,000 loan or a total of \$3,808,447, the annual requirements for debt service are estimated at \$139,643.06 for the years 1-10 and \$126,948.23 for years 11-29. The increase is \$14,412.06 or \$7,206.03 semi-annually.³ Permitting Hillview to start collecting the surcharge eight months prior to the first semi-annual payment will generate an additional \$20,800, which is enough to cover the \$14,412 revenue shortfall.

Based on the above estimates, staff pointed out to Hillview that the surcharge should be implemented in November 2007 instead of the requested February 2007 date. Accordingly, it was agreed that the surcharges authorized in D.02-11-015 should start approximately eight months prior to the first loan payment in order to meet the first semi-annual payment and provide sufficient source of payment to meet the annual debt service requirement of \$139,643.06.

The Funding Agreement with DWR for the construction loan states that Hillview should secure documentation showing Commission approval of the increased loan amount and that certain water surcharges are adequate to secure the increased loan amount.

We note herein that prior to execution of the loan contract, DWR requires the utility to:

1. Procure the services of a Fiscal Agent⁴ to assist in administering the repayment of the loan (DWR form 4280).
2. Use the funds from the bank account only for payment of principal and/or interest on the loan, until the loan is repaid in full.
3. Not amend, close or retain a new agent without written notice to DWR once the Fiscal Services Agreement is approved.
4. Loan principal and interest payments shall be due and payable within thirty (30) days from the date of the invoice.

³ (\$139,643.06 less \$126,948.23) divided by 2 = \$7,206.03.

⁴ A bank, savings and loan, or any other financial institution or entity approved by DWR.

The Commission has authorized utilities to impose a service fee for new service to vacant and undeveloped lots when such authority is coupled with approval of state funded loan surcharges. Decision 02-11-015 authorized Hillview to impose a service fee for future customers who will benefit from the expenditures being made from the proceeds of the SDWSRF loan. The service fee shall be the accumulated total of the surcharge, as applied to the property being furnished water service from its effective date to the date of connection, with a maximum of \$2,000.

We will authorize Hillview to implement the surcharges approved in D.02-11-015 eight months prior to July 1, 2008. The surcharge serves only to repay the debt and does not generate any revenue to the utility owners. Hillview should file by separate advice letter to impose the surcharges and the service fee on customers requesting future service to undeveloped lots.

In addition to the conditions governing the surcharge indicated in D.02-11-015, we will require Hillview to do the following:

1. Provide the Utility Audit, Finance and Compliance Branch (UAFCB) a copy of the monthly bank statement administered by the Fiscal Agent within 15 days of receipt.

COMMENTS ON DRAFT RESOLUTION

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

Hillview, the only party in this filing, informed staff that it has no objection to the conditions added to the relief requested in A.L. 78, and that it is waiving its right to the 30-day public review and comment period. These added conditions include implementing the surcharges in November 2007 instead of the requested February 2007 date.

Accordingly, pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, there will be no formal comment period on this Resolution which approves with conditions Hillview's request.

FEES

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with § 1904(b). Pursuant to

§ 1904(b), Hillview should pay the fee of \$800.^{5]}

FINDINGS

1. Decision 02-11-015 authorized Hillview to borrow \$3,408,447, under the SDWSRF, for system improvements required by DHS.
2. Hillview needs additional funding to complete the SDWSRF project due to increased costs.
3. By letter dated November 6, 2006, DHS approved the elimination of the Sierra Lakes treatment plant project, estimated at \$541,917, and the use of this amount to fund part of the cost overrun.
4. By letter dated December 14, 2006, DHS and DWR agreed to the additional \$400,000 in funding and the extension of the project completion date to October 31, 2007.
5. Hillview's well and system improvements are needed to provide quality and reliable water supply and to preserve and lengthen the useful life of Hillview's water system.
6. The proposed borrowing is for proper purposes.
7. Decision 02-11-015 authorized the collection of a surcharge to repay the loan, and the service fee to vacant lot owners. The implementation of this surcharge is to be by Advice Letter filing.
8. To ensure sufficient funds to pay the first year's debt service, the surcharges authorized in D.02-11-015 should start approximately eight months prior to the first loan payment in order to meet the first annual debt service requirement of \$139,643.06.
9. Hillview should pay the fee determined in accordance with § 1904(b).

⁵ The amount subject to the fee is \$400,000. The fee is determined as follows:
(\$2 x (400,000/1,000) = \$800.

THEREFORE, IT IS ORDERED that:

1. Hillview Water Company, Inc. is authorized to borrow an additional \$400,000 under the Safe Drinking Water State Revolving Fund (SDWSRF) for the purposes specified in Advice Letter (AL) No. 78.
2. Hillview Water Company, Inc. is authorized to implement the surcharges approved in D.02-11-015 eight months prior to July 1, 2008, by advice letter, incorporating the surcharges and the service fee contained on page 5 of this Resolution. Its filing shall comply with General Order 96-A. The effective date shall not be earlier than five days after the date of filing.
3. Hillview Water Company, Inc. shall file with the Utility Audit, Finance and Compliance Branch (UAFCB) of the Water Division, a copy of the loan documents within 15 days of execution, and upon completion of the project, a summary detailing the amount of the loan and disbursements thereof.
4. Hillview Water Company, Inc. shall notify UAFCB in writing of the completion date of the project.
5. In addition to the conditions governing the surcharge indicated in D.02-11-015, we will require Hillview to provide UAFCB a copy of the monthly bank statement administered by the Fiscal Agent within 15 days of receipt.
6. On or before August 31, 2008, and semiannually thereafter, for as long as the surcharge is imposed, Hillview Water Company, Inc. shall send to UAFCB a comparative report stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge collected, the service fee collected, the outstanding balance of the loan, the balance in the trust account, and the overages and shortages in the utility's balancing account. Hillview Water Company, Inc. shall also indicate in the report if an advice letter will be forthcoming to reflect changes in the surcharges.
7. The authority granted by this order shall become effective when Hillview Water Company, Inc. pays \$800, the fee set forth by Public Utilities Code § 1904(b).

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 February 15, 2007, the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners