



May 22, 2018

Proposed Resolution W-5168

Agenda ID: 16542

To: All Interested Persons

Enclosed is Proposed Resolution W-5168 of the Water Division, which authorizes Del Oro Water Company's River Island District authority to borrow \$5,189,176 under the Drinking Water State Revolving Fund program; add a surcharge to water rates to repay the principal and interest; provide a fund reserve equal to one year's debt service; and encumber utility assets in conjunction with the loan. Proposed Resolution W-5168 is scheduled to appear on the June 21, 2018 Commission Meeting Agenda (ID #16542).

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-5168 via email to Water.Division@cpuc.ca.gov on or before June 11, 2018. **Please reference "Proposed Resolution W-5168" 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-5168."

/s/RAMI S. KAHLON

Rami S. Kahlon, Director
Water Division

Enclosures: Proposed Resolution W-5168
Certificate of Service
Service List

PROPOSED RESOLUTION

Resolution W-5168
WD

Agenda ID #16542

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-5168

June 21, 2018

RESOLUTION

(RES. W-5168), RESOLUTION GRANTING DEL ORO WATER COMPANY, RIVER ISLAND DISTRICT, AUTHORITY TO BORROW \$5,189,176 UNDER THE DRINKING WATER STATE REVOLVING FUND PROGRAM; ADD A SURCHARGE TO WATER RATES TO REPAY THE PRINCIPAL AND INTEREST; PROVIDE A FUND RESERVE EQUAL TO ONE YEAR'S DEBT SERVICE; AND ENCUMBER UTILITY ASSETS IN CONJUNCTION WITH THE LOAN.

By Advice Letter No. 493 filed on December 1, 2017.

SUMMARY

This Resolution grants the authority requested of the Commission by Del Oro Water Company (DOWC) in its Advice Letter (AL) No. 493.

DOWC requests authority, pursuant to §§ 816 through 851 of the Public Utilities Code and the requirements of General Order 96-B, to:¹

1. Enter into a loan agreement with the California State Water Resources Control Board (SWRCB) to borrow \$5,189,176 under the Drinking Water State Revolving Fund (DWSRF) program;
2. Use the proceeds to finance the engineering and construction of a treatment plant and conveyance system designed to serve its River Island District's Territory 1 (RID 1) customers;
3. Encumber its assets in connection with the loan; and

¹ All statutory references are to the Public Utilities Code unless otherwise indicated.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

4. Place in effect a surcharge on existing water rates for amortizing the \$5,189,176 loan and accumulating a reserve fund equal to one year's debt service.

The estimated revenue impact of the \$5,189,176 loan is \$307,152 in surcharges to be collected annually from RID 1 customers for the term of the loan (20 years).

BACKGROUND

DOWC is a Class B multi-district water utility providing water service to 19 districts throughout California, comprised of approximately 8,000 customers. Its main office is in Chico, California.

On April 10, 2008, DOWC and River Island Water Company signed a purchase agreement whereby DOWC purchased the assets of River Island Water Company. The purchase price was \$843,030 consisting of \$760,000 for the existing water system, \$70,000 for a five-acre site of a proposed surface water treatment plant, and engineering costs of \$13,030 for the proposed plant. At the time of purchase, River Island Water Company was a Class D investor-owned utility. Decision (D.) 08-07-034, dated July 31, 2008 authorized the acquisition.

DOWC operates the acquired water system as one of its districts under the name River Island District or RID. When it was acquired, the water system provided water to 337 metered water customers and 15 metered irrigation customers in River Island and surrounding areas comprised of 600 lots approximately three miles southwest of Springville, Tulare County, California. The water system is comprised of one inactive and 17 hard rock wells, five storage tanks with a total storage of 492,000 gallons and distribution pipelines consisting of 63,672 feet. RID is comprised of two separate service territories: Territory 1 or RID 1, and Territory 2 or RID 2. The territories are about one mile apart and have water systems which are not interconnected. Each has its own wells and mains.

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

In its Income Statement for the year ending December 31, 2017, DOWC reported that it generated operating revenues of \$648,775 and net income of \$206,739 for RID. RID's Balance Sheet as of December 31, 2017, as reported, is summarized below:

Table 1
DOWC's RID
Balance Sheet as of December 31, 2017

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$2,804,607
Current and Accrued Assets	463,444
Deferred Charges	(10,526)
Total Assets	<u>\$3,257,525</u>
<u>Liabilities & Equity</u>	
Capital and Retained Earnings	\$2,372,206
Long-Term Debt	0
Current and Accrued Liabilities	37,282
Advances for Construction	663,008
Contributions in Aid of Construction	245,160
Accumulated Amortization of Contributions	(60,131)
Total Liabilities & Equity	<u>\$3,257,525</u>

DOWC's RID's last general rate increase became effective December 15, 2016, pursuant to Res. W-5121. The Commission authorized an increase of \$49,311, or 9.1% above present revenues of \$543,459, and a rate of return of 10.10%.

NOTICE AND PROTESTS

Pursuant to G.O. 96-B, Water Industry Rule 4.1, on December 1, 2017, DOWC served its AL No. 493 on its service list. Notice of AL No. 493 was made by publication in the Commission's Daily Calendar of December 4, 2017.

DOWC mailed a notice of the proposed loan and rate surcharge to each customer in the RID 1 service area on February 9, 2018. Three customer protest letters were received questioning the basis of the rate increase and the surcharge. DOWC responded to the

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

customers and explained the water supply and water contamination issues of RID 1. These issues had resulted in compliance orders issued by the SWRCB. DOWC explained that it has worked with its consulting engineers to develop the best solution to curing these issues, and that the best solution is to construct a water treatment plant that will treat the new source of water coming from the Pleasant Valley Canal. DOWC explained that the funding for the project will come from a DWSRF loan at a low interest rate, and this loan necessitated the imposition of a surcharge to its customers. DOWC said the final cost of the project will be booked as a contributed asset, excluded from ratebase, and will not provide DOWC with any financial benefit or profit.

A public meeting was held on February 27, 2018 to discuss the proposed treatment plant and conveyance system project, the DWSRF loan, and the surcharge to repay the loan. Approximately 50 persons attended representing 35 customer accounts, or 8% of the RID 1 customers. Power point presentations were given by the engineering firm Luhdorff & Scalmanini Consulting Engineers (LSCE) on the water quality issues of the RID 1, evaluation and selection of the best alternative to improve the issues facing the water system, design and engineering process of the project, and project cost breakdown. DOWC discussed the impact on the customer's bill, and the meeting ended with a question and answer session.

DISCUSSION

DOWC filed AL No. 493, to secure authorization to borrow \$5,189,176 under the DWSRF program to finance the engineering and construction of a treatment plant and conveyance system designed to serve the RID 1 customers, institute a surcharge on existing water rates to repay the loan principal and interest, and accumulate a reserve fund equal to one year's debt service.

The SWRCB requires this Commission's approval for the loan, a dedicated source of revenue, and security for the loan.

A. Water System Problem

Ever since RID was acquired in 2008, it was known that the RID 1 system did not provide sufficient quantity of water (especially during peak periods) and that some of its wells had high levels of contaminants. This situation has not improved, and the

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

number of customers has increased. In 2009, RID 1 served 360 connections and two of the 14 wells had been removed from service due to low capacity and high concentrations of nitrate. The water system could reliably produce 414 gallons per minute (GPM), but the maximum daily demand is 521 GPM, resulting in a capacity deficit of 107 GPM.² Currently, the number of customers has increased to where RID 1 now has 419 service connections. In addition, RID 1 has 21 irrigation connections.³

Levels of uranium and nitrate have been found in water supply wells servicing RID 1 at unacceptable levels by the SWRCB (previously California Department of Public Health). This has led to compliance orders requiring quarterly monitoring and mitigation measures.⁴ To address the problems of insufficient water supply and contamination, shortly after acquisition, DOWC retained LSCE to conduct an engineering evaluation of the RID 1 water system, and to develop and implement a plan to augment the RID 1 water supply.⁵

In Decision (D.)10-05-004 dated May 6, 2010, the Commission approved a moratorium on new service connections in RID 1. DOWC requested this moratorium because RID 1's water system to provide water was inadequate, and that adding additional customers in RID 1 would be imprudent until DOWC is able to augment its sources of supply. The moratorium applies for three years or when DOWC can provide sufficient additional water supplies, whichever is the earlier. In addition to authorizing a moratorium on new service connections, the Commission required DOWC, within a year, to prepare a plan to augment the RID water supply and file the plan with the Commission.⁶

In January 2011, DOWC held a public meeting at the River Island Country Club to update the customers of the proposed treatment plant and conveyance system project. At the meeting, DOWC discussed diminished water supply, inadequate storage, contaminate levels, the need to find a new source of water and to construct a surface water treatment plant, and the rate impact on customers. DOWC estimated the total

² D.10-05-004 (5-6-10)

³ According to DOWC, there are currently 419 connections in RID 1. In addition, the source of water for irrigation is from a well that does not get treated and goes through a separate transmission system for the 21 irrigation customers with separate rates.

⁴ Compliance Order (CO) 03-12-17R-003-A1 (11-16-17), CO No. 03-12-11O-003 (11-18-11), CO No. 03-12-09O-009 (12-10-09), CO No. 03-12-08O-030 (10-16-08).

⁵ Res. W-4759. Discussion of LSCE in this resolution indicated DOWC consulted with LSCE as early as 2009.

⁶ D.10-05-004, O.P. #3.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

project cost at \$3,943,025 and presented a 2-phase plan consisting of Phase 1 - planning (\$200,000) and Phase 2 – construction (\$3,743,025).

In May 2011, in compliance with D.10-05-004, DOWC filed with the Commission the 2-phase plan to augment the RID 1 water supply.⁷ The 2-phase plan will be undertaken by LSCE to design and construct a surface water treatment plant for treating water from the Pleasant Valley Canal (PVC). The treated water will be utilized to enhance the source capacity of RID 1 to lessen and/or eliminate the necessity to use existing wells with elevated levels of nitrate or uranium contaminants. DOWC has acquired a five-acre parcel for the plant and adequate shares of PVC water shares which will provide the source for the plant.

In December 2011, LSCE prepared an engineering report for the SWRCB. LSCE recommended that the best solution for the RID 1 water system was to divert water from the PVC and construct a surface water treatment plant.⁸ The estimated cost of the project is \$5,189,176.⁹ DOWC claims that it has already spent about \$618,000 on the engineering aspect of the project. DOWC applied for a construction loan with the SWRCB and received an approval for a \$5,189,176 DWSRF loan.

B. Description of Financing

The \$5,189,176 DWSRF loan will carry an annual interest rate of 1.70%, payable in semi-annual payments of \$153,576, and a term of 20 years. A \$307,152 reserve is required to be accumulated during the construction period.¹⁰ In addition, the SWRCB requires the opening of a separate bank account for deposit of loan proceeds and a fiscal agent who will oversee surcharge deposits and loan payments.

C. Use of Proceeds and Cost Estimates

DOWC proposes to use the proceeds of the DWSRF loan to finance the construction of the RID 1 treatment plant and conveyance system. The project will consist of the following elements:

⁷ Advice Letter 300 (5-19-11). The Commission accepted the filing by issuing Res. W-4898 (1-12-12).

⁸ Engineering Technical Report (December 2011). LSCE amended the report in June 12, 2017.

⁹ The project was originally estimated at \$3,943,025 in May, 2011, but increased to \$5,189,176 due to inflation and increased cost of materials.

¹⁰ The reserve serves as security in case DOWC defaults at any time in paying the loan amortization.

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

1. Construction of a water treatment plant to include the addition of water treatment packaged modules, along with all associated chemical feed equipment, backwash system, backwash tank, transfer tank, pre-engineered metal building.
2. Piping, valving, booster pumps controls and electrical.
3. Installation of water mainline to connect to the existing RID 1 service area.
4. Adding two new 500,000-gallon bolted steel storage tanks.
5. Installation of a raw water pipeline and canal turnout structure to divert raw water from the Pleasant Valley Canal to be treated.
6. Construction of two separate pipelines to future well sites.
7. Installing a pre-engineered metal building for storage and maintenance equipment, and an all-weather access road and onsite paving.

DOWC's projected construction budget is shown in the following table:

Table 2
Construction Budget

<u>Description</u>	<u>Total</u>
Facilities Planning	\$ 167,620
Facilities Design	50,000
Construction Management	379,881
Engineering	330,000
Administration	131,209
Facilities Construction	3,530,840
Contingency	529,626
Land and Right-of-Way	<u>70,000</u>
Total	<u>\$5,189,176</u>

For this DWSRF-funded debt, DOWC will only be allowed to expend funds based on the SWRCB's project components and the SWRCB will verify all work performed prior to releasing funds to the utility.

D. Capital Ratios

DOWC's capital ratios, as of December 31, 2017, are shown below, as recorded and as adjusted, to give pro forma effect to the proposed issuance of \$5,189,176 debt authority under the filing:

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

Table 3
Capital Ratios

	<u>Recorded</u>		<u>Adjustments</u>	<u>Proforma</u>	
Long-term Debt	\$	0	\$5,189,176 ^(A)	\$5,189,176	66.4%
Common Stock		0	0	0	
Other Paid-In Capital	2,283,409	96.3%	0	2,283,409	29.2%
Retained Earnings	<u>88,797</u>	<u>3.7%</u>	<u>259,258^(B)</u>	<u>348,055</u>	<u>4.4%</u>
Total Capitalization	\$2,372,206	100.0%	\$5,448,434	\$7,820,640	100.0%

(A) \$5,189,176 loan requested in this filing.

(B) Projected net earnings in 2018 and 2019 combined.

Although the financing requested in the filing changes the capital structure for regulatory purposes, the Commission shows the recorded capital structure as compared to the pro forma for illustrative purposes. As shown above, the 66.4% debt to capital ratio, given the proposed loan, is significant.

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not make a finding in this Resolution on the reasonableness of the projected capital ratios for ratemaking purposes.

E. Loan Approval

Upon order of the Commission and for proper cause, § 817 allows the use of proceeds from the issuance of debt for purposes reasonably required for the improvement or maintenance of service of a utility.

Section 851 requires Commission authorization before a utility may “sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its...plant, system, or other property necessary or useful in the performance of its duties to the public...”

DWSRF borrowings represent a much lower cost of capital than either equity or other forms of debt. In addition, there are conditions set by the SWRCB and this Resolution to ensure proper accounting and handling of the loan proceeds and surcharges collected.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

As a public utility, DOWC has the responsibility to maintain its quality of service and provide necessary improvements to its present water system. DOWC's proposed financing transaction is in the public interest because it is intended to enable DOWC to construct the RID 1 treatment plant and conveyance system.

To the extent that the SWRCB has approved the construction loan, it is our responsibility to provide DOWC the opportunity to access this low-cost debt facility.

Therefore, it is reasonable to authorize DOWC to borrow the \$5,189,176; to execute a loan agreement on terms and conditions contemplated herein; and encumber utility assets in connection with the loan.

Our approval does not authorize any capital expenditures or specific construction projects, but rather the creation of a funding mechanism to finance improvements to the existing utility system.

Consistent with § 824, DOWC will need to maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes indicated herein.

F. Proposed Surcharge

As required by the SWRCB, DOWC seeks authority to impose a surcharge on RID 1's customers to repay the DWSRF loan over 20 years.¹¹

Based on the SWRCB's loan amortization schedule, DOWC estimates that the \$5,189,176 loan will require an annual revenue requirement of \$307,152. The DWSRF loan program, in this funding, requires that a 10% reserve or \$307,152 be accumulated twelve (12) months prior to construction completion.¹² DOWC proposes the following surcharges:

¹¹ According to the SWRCB, a 30-year term is only considered for publicly owned utilities.

¹² Previously the SWRCB required the accumulation of a 10% reserve during the first ten (10) years of the loan.

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

Table 4
Estimated Surcharge Per Meter, Per Month

<u>Size of Meter</u>	<u>Surcharge Per Month</u>
Meters up to 1-inch	\$ 61.09
1-1/2 inch meter	122.18
2-inch meter	195.48
3-inch meter	366.53
4-inch meter	610.88
6-inch meter	1,221.77

DOWC estimates the monthly bill for customers with meters up to a 1-inch connection, using an average of 2,000 cubic feet (cu. ft.) of water per month at the current quantity rate of \$3.467 per 100 cu. ft., plus a monthly service charge of \$43.01 would increase by \$61.09 from \$112.35 to \$173.44 or 54.4%.

The surcharge rates shown above are estimates and may change based on the final loan agreement or changes to the assumptions underlying the calculation shown above.

To ensure that the surcharge rates are appropriate throughout the loan repayment period, DOWC shall use 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. We will require DOWC to review the balancing account at least once per year. If the balance immediately following a payment to the SWRCB is less than the required reserve or exceeds the required reserve by more than thirty five percent of the next semiannual payment, DOWC will be required to file an advice letter to adjust the surcharge. A Tier 2 filing is required if there is an overcollection and a Tier 3 filing is required if there is an undercollection.

We are aware that DOWC will not be able to obtain the DWSRF 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, DOWC's financing request cannot be processed by the SWRCB and granted without a surcharge authorization from this Commission.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

Smaller utilities, or in this case a small district of a Class B water utility, is characterized by high operating expenses per customer in contrast to bigger ones because of lack of economies of scale. For example, an unanticipated \$20,000 pipe repair may have negligible per-customer impact on a Class A water utility with more than 10,000 connections, but the same repair has significant per-customer impact on a utility with 300 connections. Similarly, RID 1 faces increased operating costs and significantly increased capital costs to comply with federal and state regulations on water quality.

The Commission is obligated to protect the interests of ratepayers in the absence of competition. That task collides from time to time with the interest of utilities, big or small.

In this filing, DOWC's proposed treatment plant and conveyance system would be paid through the surcharge and the plant would be permanently excluded from ratebase. Theoretically, the surcharge is a rate increase. But it is not one in the context of a general rate case, step-rate increase, rate base treatment, or in connection with a utility's revenue requirement.

Clearly, with a surcharge authorization, the utility is held responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account and the utility is directed by the Commission to make a filing whenever a decrease in rate surcharge is warranted.

The ratepayers ultimately pay for all water system requirements and improvements, regardless of the way they are funded. If the utility were to borrow the money 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 improvements, they would be entitled to similar investor earnings on such funds, which would likely be higher than the DWSRF loan interest rate.

The surcharge method of recovery ensures that the loan will be repaid without financial stress to the water utility. The surcharge is independent of the quantity rate and service charge that the customer pays, and the surcharge serves only to repay the loan and will not generate any profit to the utility owners.

The Commission has also ordered utilities to impose a service fee for new service to vacant and undeveloped lots when the Commission authorizes loan surcharges. We

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

recommend DOWC be granted authority to impose a service fee for future customers who will benefit from the proceeds of the DWSRF loan. The benefits include potentially increased property values and the availability of water, furnished by a public utility, which meets health standards. The amount of the service fee, subject to a maximum amount of \$2,000, is the accumulated total of the loan surcharge from its inception to the time of service connection. Only the monthly surcharge applies thereafter.

Therefore, it is reasonable to authorize DOWC to impose a surcharge on its existing RID 1 customers and a service fee to future customers who will benefit from the system improvements.

With the above proposed surcharge, the annual surcharge revenues are \$307,152. SWRCB requires DOWC to maintain a reserve equal to one year's loan payments prior to the completion of the construction. According to the SWRCB, the construction completion date (approximately 1.5 to 2 years) will depend on when the financing agreement is executed. Based on DOWC's application, the SWRCB estimates a completion date of February 2020.

We will therefore authorize DOWC to implement the surcharge 12 months prior to construction completion or by February 2019.

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

G. Conditions Attached to Debt Authorization

To ensure proper treatment of the surcharge and plant financed, the Commission will impose the following conditions:

- a. The surcharge shall be separately identified on customers' bills.
- b. The surcharge shall continue until the loan is fully paid.
- c. Surcharge revenues shall not be commingled with other utility revenue.
- d. All surcharge revenues shall be deposited in a separate bank account with a fiscal agent approved by the SWRCB, and such deposits shall be made within 30 days after the surcharges are collected from customers. The bank account will be reduced by payments of principal and interest on the loan.
- e. DOWC shall establish a separate bank account for deposits and disbursement of the DWSRF loan.
- f. The accounting for surcharge collections and loan payments shall comply with the accounting instructions for a DWSRF loan as specified in the Uniform System of Accounts for Class B, C, and D Water Utilities.
- g. DOWC shall review the balancing account at least once per year. If the balance immediately following a payment to the SWRCB is less than the required reserve or exceeds the required reserve by more than thirty five percent of the next semiannual payment, DOWC will be required to file an advice letter to adjust the surcharge. A Tier 2 filing is required if there is an overcollection and a Tier 3 filing is required if there is an undercollection.
- h. Any surplus accrued in the bank account to be refunded shall be refunded or applied on behalf of the customers when ordered by the Commission.
- i. The cost of the project financed through the surcharge shall be permanently excluded from ratebase for ratemaking purposes.
- j. DOWC shall file with the Water Division a copy of the loan documents within 15 days of execution.
- k. DOWC shall file a Tier 2 Advice Letter to implement the surcharge one (1) year prior to the completion of the project or by February 2019, whichever is applicable, in order to accumulate the required reserve and include in the filing a request to establish a balancing account.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

H. 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).

The fee for this financing authority as required by § 1904(b) is \$6,189.¹³

ENVIRONMENTAL IMPACT

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by state or regulation. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the “establishment, modification, structuring, restructuring or approval of rates, tolls, fares, or other charges by public agencies” is exempt from CEQA.¹⁴ Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment are not “projects” subject to CEQA.¹⁵

This Resolution does not authorize any capital expenditures or construction projects. Construction projects which DOWC intends to finance via this filing should undergo CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004 (b). To the extent capital expenditures are financed with the proceeds of the loan issued pursuant to this Resolution, ongoing projects have already been subject to any necessary CEQA review undertaken prior to DOWC receiving a certificate of public convenience and necessity or permit to construct. CEQA review for future projects will occur through the regulatory processes applicable to each capital project when meaningful information necessary for conducting an environmental assessment is available.

DOWC should comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with the proposed loan.

¹³ The fee is assessed on \$5,189,176 of authorized borrowing as follows: \$2 times (\$1,000,000/\$1,000) + \$1 times (\$4,189,176/\$1,000) equals \$6,189.

¹⁴ Public Resources Code Section 21090 (b) (8).

¹⁵ CEQA Guidelines Section 15378 (b) (4).

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

SAFETY AND COMPLIANCE

As discussed above, DOWC will construct a new surface water treatment plant to treat water from the PVC and convey the treated water to the RID 1 service area. The new surface water supply will meet water demand, and the treated water from the water treatment plant will replace the water supply from the contaminated groundwater wells in RID 1. This will provide DOWC the means to comply with the SWRCB's requirements to meet all applicable water quality standards. DOWC pays the Commission user fees and files its annual reports regularly. There are no other outstanding Commission orders.

COMMENTS

Section 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.

Accordingly, on May 22, 2018, the draft resolution was mailed to parties based on the service list attached to AL No. 493, and to customers who protested the filing, with comments due on June 11, 2018.

FINDINGS AND CONCLUSIONS

1. DOWC is responsible for maintaining its quality of service and providing necessary improvements to its water system.
2. DOWC wishes to construct a new surface water treatment plant and convey the treated water to the RID 1 service area in order to be in compliance with the requirements of the SWRCB.
3. The proposed borrowing is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the loan authorized by this Resolution is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

4. The loan authorization herein is not a finding of the reasonableness of DOWC's proposed construction or expenditures, the resulting capital structure, or the cost of money, nor does it indicate approval of matters subject to review in general rate case or other proceedings.
5. The rate surcharge, which is established to repay the DWSRF loan, should last for the term of the loan. Surcharge revenues shall not be commingled with other utility charges.
6. Undeveloped lots will benefit from the expenditures being made from the proceeds of the DWSRF loan. The benefits include potentially increased property values and the availability of water, furnished by a public utility, which meets health standards.
7. 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.
8. The surcharge and service fee authorized by this Resolution are justified and reasonable.
9. DOWC received several letters from customers expressing concerns regarding the proposed loan and the basis of the rate increase. DOWC acknowledged receipt of these letters and responded to the customers.
10. The customers' protests did not provide any substantive evidence or reason for this Commission to reject the funding of DOWC's proposed treatment plant and conveyance system project.
11. The establishment of a separate bank account by DOWC is required to ensure adequate accountability for deposits and disbursements of the DWSRF loan.
12. With a surcharge type of recovery, the surcharge serves only to repay the loan and will not generate any profit to the utility owners.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

13. The accounting for surcharge collections and loan payments shall comply with the accounting instructions for a DWSRF loan as specified in the Uniform System of Accounts for Class B, C, and D Water Utilities.
14. DOWC shall review the balancing account at least once per year. If the balance immediately following a payment to the SWRCB is less than the required reserve or exceeds the required reserve by more than thirty five percent of the next semiannual payment, DOWC will be required to file an advice letter to adjust the surcharge. A Tier 2 filing is required if there is an overcollection and a Tier 3 filing is required if there is an undercollection.
15. Any surplus accrued in the bank account to be refunded shall be refunded or applied on behalf of the customers as ordered by the Commission.
16. The cost of the project financed through the surcharge shall be permanently excluded from ratebase for ratemaking purposes.
17. DOWC shall comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with the proposed loan.
18. DOWC shall pay the fee determined in accordance with Public Utilities Code §1904(b).
19. Notice of the filing appeared on the Commission's Daily Calendar on December 4, 2017 and DOWC notified its customers of the proposed loan and the surcharge to repay the loan on February 9, 2018.

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

THEREFORE, IT IS ORDERED THAT:

1. Del Oro Water Company is authorized to borrow a total of \$5,189,176 under the Drinking Water State Revolving Fund program administered by the State Water Resources Control Board for the purposes specified in Advice Letter No. 493.
2. Del Oro Water Company may execute and deliver the loan agreement with the State Water Resources Control Board and encumber its assets in connection with the loan.
3. Del Oro Water Company is authorized to file in accordance with General Order No. 96-B, twelve (12) months prior to project completion date or by February 2019, whichever is applicable, a Tier 2 advice letter to establish the surcharge and service fee authorized in this Resolution. The filing shall include the loan amortization schedule, the reserve requirement, the calculation of the surcharge, updated for the correct amounts, and tariff sheets similar to those attached to this Resolution as Appendices A and B.
4. The authority granted herein shall be subject to the following conditions:
 - a. The surcharge shall be separately identified on customers' bills.
 - b. The surcharge shall continue until the loan is fully paid.
 - c. Surcharge revenues shall not be commingled with other utility revenue.
 - d. All surcharge revenues shall be deposited in a separate bank account with a fiscal agent approved by the State Water Resources Control Board, and such deposits shall be made within 30 days after the surcharges are collected from customers. The bank account will be reduced by payments of principal and interest on the loan. A separate bank account will ensure adequate accountability for deposits and disbursements of the Drinking Water State Revolving Fund loan.
 - e. Del Oro Water Company shall establish a separate bank account for deposits and disbursement of the Drinking Water State Revolving Fund loan.
 - f. The accounting for surcharge collections and loan payments shall comply with the accounting instructions for a Drinking Water State

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

- Revolving Fund loan as specified in the Uniform System of Accounts for Class B, C, and D Water Utilities.
- g. Del Oro Water Company shall review the balancing account at least once per year. If the balance immediately following a payment to the State Water Resources Control Board is less than the required reserve or exceeds the required reserve by more than thirty five percent of the next semiannual payment, Del Oro Water Company will be required to file an advice letter to adjust the surcharge. A Tier 2 filing is required if there is an overcollection and a Tier 3 filing is required if there is an undercollection.
 - h. Any surplus accrued in the bank account to be refunded shall be refunded or applied on behalf of the customers when ordered by the Commission.
 - i. The cost of the project financed through the surcharge shall be permanently excluded from ratebase for ratemaking purposes.
 - j. Del Oro Water Company shall file with the Water Division a copy of the loan documents within 15 days of execution.
5. Del Oro Water Company shall maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes indicated herein.
6. The authority granted by this order shall become effective when Del Oro Water Company pays \$6,189 as required by Public Utilities Code § 1904(b).

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 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 June 21, 2018; the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 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-5168 on all parties in these filings or their attorneys as shown on the attached lists.

Dated May 22, 2018, at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

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-5168
WD

June 21, 2018

APPENDIX A

Schedule No. RI-1

GENERAL METERED SERVICE

RIVER ISLAND DISTRICT

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Tract No. 389 and vicinity, adjacent to the River Island Golf Course. Located approximately 4 miles south of Springville, Tulare County.

RATES

Monthly Quantity Rates:

For all water up to 10,000 cu. ft., per 100 cu. ft.	\$ 3.467
For all water over 10,000 cu. ft., per 100 cu. ft.	\$ 4.780

Monthly Service Charge:

	Per Connection Per Month	DWSRF Surcharge Per Month	(N)
For Meters up to 1-inch	\$ 43.01	\$ 61.09	
For 1-1/2-inch meter	\$ 86.04	\$ 122.18	
For 2-inch meter	\$ 137.66	\$ 195.48	
For 3-inch meter	\$ 258.12	\$ 366.53	
For 4-inch meter	\$ 430.19	\$ 610.88	
For 6-inch meter	\$ 860.39	\$1,221.77	(N)

The Service Charge is a Readiness-to-Serve Charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing The Utility, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord or property owner.
3. All bills are subject to the California Public Utilities Commission Reimbursement Fee set forth in Schedule No. UF.

PROPOSED RESOLUTION

Resolution W-5168

June 21, 2018

WD

4. The DWSRF Surcharge is in addition to the water bill. The DWSRF Surcharge is specifically for the repayment of the Drinking Water State Revolving Fund loan authorized by Resolution No. W-_____.
5. The DWSRF Surcharge rates are subject to periodic adjustment.
6. The DWSRF Surcharge rates to repay the loan shall last until the loan is fully paid.
7. The DWSRF Surcharge shall be deposited in a trustee account and shall be used only for the repayment of the loan authorized in Resolution No. W-_____.
8. As authorized by the California Public Utilities Commission all bills are subject to a one-time Surcharge over approximately eighteen (18) billing cycles at \$4.71 per month to each customer's bill as approved by the CPUC in Advice Letter No. 451. This charge offsets the audited amount of \$36,418.00 due against the DOWC Statewide Lost Revenue Recovery Memorandum Account for the period April 1, 2014 through December 31, 2015.
9. The CPUC granted and approved on December 15, 2016 for the River Island District an Interim Rate Increase, followed by Resolution No. W-5121 dated December 15, 2016 granting a General Rate Increase. With the approval of Advice Letter No. 470, DOWCRI is granted reimbursement of the under-collected revenues in the amount of \$26,757.54 as a one-time surcharge over approximately twelve (12) billing cycles at \$5.22 per customer per month, or until the net shortfall is reimbursed. If over-collection of funds occurs, a credit will be will be issued to the customers.

END OF APPENDIX A

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

APPENDIX B

Schedule No. RI-1 ____

DRINKING WATER STATE REVOLVING FUND LOAN UNDEVELOPED LOT CHARGE

RIVER ISLAND DISTRICT

APPLICABILITY

Applicable to undeveloped lots within the service territory of River Island District 1.

RATES

A service fee to provide for reduction of the Drinking Water State Revolving Fund loan Surcharge is chargeable to customers requesting future service to undeveloped lots. The Service fees was authorized by Resolution No. W-_____.

The service fee shall be the accumulated total of the surcharges provided for in Schedule No. RI-1, as applied to the property being furnished water service from the effective date of this advice letter to the date of connection. The maximum service charge shall be \$2,000. The service fee shall be due and payable upon connection of water service to the lot. The surcharge authorized by the Commission, as contained in Schedule No. RI-1 will apply thereafter.

END OF APPENDIX B

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

DEL ORO WATER COMPANY ADVICE LETTER NO. 493 SERVICE LIST

California Public Utilities Commission
Office of Ratepayer Advocates
ora@cpuc.ca.gov

California Public Utilities Commission
Division of Water and Audits
water_division@cpuc.ca.gov

State Water Resources Control Board
Victor Lopez
Water Resources Control Engineer
Drinking Water Technical Assistance Section
Division of Financial Assistance
Victor.Lopez@waterboards.ca.gov

Springville Public Utility District (SPUD)
Attn: Marilyn
P.O. Box 434
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Spud@springvillewireless.com

Kenneth & Marguerite Mellon
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Springville, CA 93265

Carroll Crawford
31731 Mill Drive
Springville, CA 93265-9427

Michael Torres
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Eugene Estes
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Springville, CA 90601-2156

Del Oro Water Company
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California Department of Public Health
Tricia Wathen, Visalia District Engineer
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Tulare County Administrator
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Alice Christianson
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Patsy Walters
16366 Winchester Drive
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PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

Del & Nancy Pengilly
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Jay Warnke
32235 Fairway Drive
Springville, CA 93265-9611

Doug & Joy Harvey
32398 River Island Drive
Springville, CA 93265-9632

Eric Berryhill
32351 River Island Drive
Springville, CA 93265-9632

Stan & Gail Bronson
32295 River View Drive
Springville, CA 93265-9633

Kathy Slechta
32432 River Island Lane
Springville, CA 93265-9677

Herb McCormick
17228 Coyote Drive
Springville, CA 93265-9374

Steve Hidron
14951 Avenue 312
Visalia, CA 93292

James Barnes
31287 Melanie Court
Springville, CA 93265-9692

Robert & Cathy Butler
693 Oakmont Avenue
Porterville, CA 93257-2048

Carl & Rosa Carlson
16411 Winchester Drive
Springville, CA 93265-9377

Michael Dixon
32334 River Island Drive
Springville, CA 93265-9632

Priscilla Mallory
32544 Montgomery Drive
Springville, CA 93265-9676

Ronald & Diana Crouch
32243 Fairway Drive
Springville, CA 93265-9611

John Tollison
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Craig Wallace
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Mary Ann Jenkins
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Karen O'Connor
17307 Coyote Drive
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David Melvin
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Springville, CA 93265-9632

Horace Wells
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Springville, CA 93265-9366

Vicki & Stephen Brown
32573 Montgomery Drive
Springville, CA 93265-9676

PROPOSED RESOLUTION

Resolution W-5168
WD

June 21, 2018

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Jimmy & Nancy Lopez
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