

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water & Sewer Advisory Branch

RESOLUTION W-4865  
January 13, 2011

**R E S O L U T I O N**

**(RES. W-4865), DUNNIGAN WATER WORKS (DUNNIGAN). ORDER AUTHORIZING A SURCHARGE OF \$3.17 FOR 12 MONTHS FOR RECOVERY OF ITS UNANTICIPATED REPAIR COST MEMORANDUM ACCOUNT (URCMA) FOR A TOTAL OF \$9,239.77.**

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**SUMMARY**

By Advice Letter (AL), 7 filed on August 13, 2010, Dunnigan seeks to recover unanticipated repair expenses totaling \$11,566.73 plus interest at the 90-day commercial paper rate for costs associated with its emergency repair and replacement of its damaged well motor and pumping equipment. This resolution grants Dunnigan authorization to recover \$9,239.77, plus interest at the 90-day commercial paper rate, through a 12-month surcharge of \$3.17 from its 243 customers to recover the costs incurred but not already included in rates for the repair and replacement of its main well pump.

This surcharge will not result in a rate of margin greater than the last authorized for Dunnigan.

**BACKGROUND**

Decision (D.) 92-03-093, dated March 31, 1992, authorized Class C and Class D water utilities to establish a memorandum account to track unanticipated costs of repairs and to notify the Division of Water and Audits (Division) when it has done so. Dunnigan established the URCMA to track these costs, in the manner D.92-03-093 directed, and reflected the URCMA in its Preliminary Statement when it created its tariff book. By AL 7, dated August 13, 2010, Dunnigan requests authorization to recover those

emergency unanticipated pump repair and replacement costs that it has recorded to the URCMA, reflected in its Preliminary Statement, as authorized by D.92-03-093.<sup>1</sup>

D.92-03-093 addresses repair costs of small water companies in the following ways:

“Leaks in underground pipes, failed water pumps and other unanticipated repair costs are the bane of small water companies. In their testimony, owners of small water companies identified unanticipated repair costs as the single greatest obstacle in realizing rate of return” (Section 10, pg 24).

“Unanticipated costs, primarily for repair of leaks and other equipment, are the major reason that small water companies are unable to earn their authorized rate of return” (Finding of Fact, No. 19).

“A Class C or a Class D water utility is authorized to establish a memorandum account to track unanticipated costs of repairs necessary for a utility’s service to its customers and to notify the Water Utilities Branch (Branch) by letter when it has done so. A class C or Class D water utility is authorized to file by advice letter, or as part of a general rate case, to recover costs recorded in the memorandum account for unanticipated repair costs either in rates or in a one-year surcharge when the total cost exceeds 2% of the utility’s last adopted gross revenues. Costs already reflected in rates or recoverable through insurance or other means and costs that with reasonable diligence could have been avoided shall not be recoverable through the memorandum account” (Ordering Paragraph No. 2).”

Dunnigan, a Class D water utility, provides flat rate water and sewer service to approximately 243 customers in the Country Fair Estates Mobile Home (MH) and Happy Time RV (RV) Parks. Also, Dunnigan provides water and sewer service to Grant Park Development.<sup>2</sup> Grant Park Development provides water and sewer service

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<sup>1</sup> Memorandum accounts authorized by the Commission must be described in a utility’s Preliminary Statement to show that the utility is availing itself of the account. (See Standard Practice U-27-W, item 27.) The URCMA is reflected in the Preliminary Statement in Dunnigan’s tariffs.

<sup>2</sup> Grant Park Development acquired land permitted for the MH and RV Parks in 1998 and has since provided water, sewer, trash, and cable TV services to the MH and RV Parks, and to the Grant Park Development offices. Grant Park Development began to

*Footnote continued on next page*

to the MH and RV Park for their business uses as necessary, e.g., for the Park's clubhouses, swimming pools, showers, and landscaping. Dunnigan provides all of the above services within a service area known as Dunnigan, in Yolo County.

### **NOTICE AND PROTESTS**

Notice of the proposed surcharge recovery was mailed to customers on August 27, 2010. AL 7 was served as required by G.O. 96-B on August 13, 2010. No protests or responses were received.

### **DISCUSSION**

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden to show that: (1) the utility acted prudently when it incurred these costs; (2) the utility paid reasonable amounts for these costs; (3) the memorandum account costs are not covered by other authorized rates; and (4) as a matter of policy, it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates. (See, e.g., Ordering Paragraph 5 of Res. W-4824, dated April 8, 2010.)

The increase requested herein is for the purpose of recovering through a surcharge, on a dollar-for-dollar basis, expenses which Dunnigan incurred for unanticipated repair and replacement of its pumping equipment. During a week in mid-July 2009, Dunnigan's main well pump failed forcing the utility to serve its customer base from its secondary well and pump while the main well pump was repaired. Dunnigan's secondary well and pump only function as backups supplementing the main well and pump when demand exceeds the main pump's capacity. Dunnigan explained that because the secondary well's only function is to *supplement* the main well when needed, the electrical service connection for that well's pump does not provide adequate power when used to meet the entire system's peak demand by itself. To remedy the power issue, Dunnigan rented a generator to power the secondary pump and ensure that peak demands would be met while repair of the main well pump took place.

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transact its water and sewer business as Dunnigan Water Works (i.e., Dunnigan) beginning September 24, 2002, and received its Certificate of Public Convenience and Necessity to operate as a public utility on April 12, 2007, pursuant to D.07-04-018.

*Generator rental and contractor repair costs*

Dunnigan incurred \$264.40 for the generator rental and \$8,175.37 in contractor costs, payable to Layne Christensen Company, for labor and materials necessary to remove and replace the main well pump and motor. Dunnigan acted prudently in incurring these costs. As discussed above, it was necessary for Dunnigan to rent the generator in order to provide adequate power to the secondary well while repairs were being made to the main well. The main well is critical to Dunnigan's operations and repair and replacement of this pumping equipment was vital. Thus, in incurring these costs, Dunnigan acted to repair equipment that is crucial to its operations while also ensuring that it continued to provide adequate water service to its customers while the necessary repairs were being made.

Staff reviewed the generator rental and contractor repair costs. Staff found reasonable the amounts Dunnigan paid for these goods and services.

Dunnigan has not received prior authority to recover these generator rental and contractor repair costs in its rates. As noted in D.92-03-093, unscheduled maintenance is often one of the most significant costs of well pump and motor ownership. Failure of water pumps and motors in the water industry is usually unpredictable in nature, so their failure can not be anticipated or predicted and, as such, planned for or included in rates. The expenses here associated with the repair of the main well were unanticipated and thus are not covered in otherwise authorized rates. Accordingly, Dunnigan may now seek recovery of these expense recorded in the URCMA. Furthermore, these costs are not recoverable through insurance or other means and, thus, recovery here is appropriate under Ordering Paragraph 2 in D.92-03-093.

Finally, as a matter of policy, it is appropriate for Dunnigan's customers to pay for these costs, in addition to otherwise authorized rates. D.92-03-093 lists pump failure repairs as an example of a type of cost that is eligible for recovery through the URCMA as it is both 1) unanticipated and 2) crucial to the operation of the utility. The costs incurred with the repair of the main well pump, here, were unanticipated and crucial to Dunnigan's operations and, accordingly, should be recovered from ratepayers, as authorized by D.92-03-093.

*Other expenses*

Dunnigan also submitted for recovery \$3,126.96 for other expenses it claims were associated with the main well pump failure. These expenses were for water sampling costs (\$90), employee labor costs (\$1,836.96), and costs payable to the consultant Dunnigan retained for the purpose of filing this request with the Commission (\$1,200).

By AL 5-A, approved on August 2, 2010, Dunnigan requested and received authority to amortize and recover via a six-month surcharge \$5,513 worth of water testing costs it booked to its Water Quality Memorandum Account, including the \$90 in water sampling costs requested herein. Dunnigan implemented the authorized surcharge and is already on its way to recover those costs. Accordingly, Dunnigan's current request to recover \$90 in water sampling expenses is duplicative and should be denied.

Expenses the Commission has authorized to be tracked in memorandum accounts, such as those tracked in the URCMA, may only be eligible for recovery if they correspond to costs that are above and beyond those already included in rates. According to Dunnigan's last general rate case (GRC), adopted by Res. W-4762 on August 20, 2009, the Commission authorized in base rates \$15,226 to fund annual employee labor costs. As is indicated by its 2009 Annual Report - the year in which the pump failure occurred - Dunnigan only incurred \$10,948 in employee labor costs. The labor cost component of Dunnigan's recovery request amounts to \$1,836.96 for time it claims its employees spent dealing with the pump failure. Dunnigan's recorded employee labor costs for 2009 are \$4,278 less than the amount covered by current rates.<sup>3</sup> Therefore, Dunnigan's request to recover employee labor costs here does not correspond to costs above and beyond those included in current rates, and, as such, these costs should not be eligible for recovery.

Lastly, citing the Division's Standard Practice U-27-W: Processing Rate Offsets and Establishing and Amortizing Memorandum Accounts (SP U-27-W), Dunnigan requests authority to recover \$1,200 incurred for retaining a consultant to prepare its current URCMA amortization AL. SP U-27-W states: "Class C and D utilities may request recovery of the cost of preparing an offset advice letter if no funds were included in the Regulatory Expense authorized in its last General Rate Case. Normally this recovery is spread over three years but may be recovered more quickly if justified."

Although Res. W- 4762, which authorized Dunnigan's last GRC rates, depicts a zero dollar amount allocated to the "Regulatory Commission Exp." line item under Appendix A-1 "Summary of Earnings", the Division Staff's GRC Report explains that no dollar amount was used under that expense line item because funds for Regulatory

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<sup>3</sup> Dunnigan's current rates became effective on August 1, 2008, pursuant to an interim rate increase recommended by the Utility Audit, Finance and Compliance Branch. These rates were later adjusted down to the final GRC rates approved by the Commission in Res. W-4762.

Commission expenses had, in this particular case, already been allocated under the "Professional Services" expense. By comparing the regulatory expense costs included in rates with those same costs incurred by Dunnigan thus far this year, the Division Staff determined that only \$800 for advice letter preparation costs should be allowed for recovery via the surcharge authorized in this resolution.

Here, also, the utility acted prudently in incurring these costs as recovery is allowed under Division standard practices (see also discussion below) and the preparation costs are for the amortization of unanticipated repair expenses, as discussed above. Furthermore, a one-year recovery period is justified because the preparation costs represent only but a small fraction of the unanticipated repair expenses or just barely 1% of Dunnigan's most recently adopted annual revenue requirement. Given the small dollar-amount involved, a longer three year recovery period would be unwarranted. Dunnigan's customers should pay for these costs, in addition to otherwise authorized rates.

Dunnigan should remove \$2,326.96, corresponding to water sampling, employee labor, and a portion of the advice letter preparation costs, from its URCMA, and surcharge recovery of those costs should be denied. However, the generator rental and contractor costs that Dunnigan, as discussed earlier, incurred for the unanticipated repair and replacement of its main well pump and motor were beyond Dunnigan's control and were unforeseeable and, therefore, were not included in the company's last GRC, as were the \$800 for preparation costs. The Division has reviewed Dunnigan's last general rate increase, authorized on August 10, 2009 (Res. W-4762), and finds that Dunnigan could not have received any revenue for these costs, nor were these expenses anticipated at the time of its last GRC. The Division reviewed these expenditures recorded in Dunnigan's invoices and found them reasonable.

For all the reasons discussed above, Dunnigan should be permitted to transfer \$9,239.77, consisting of the generator rental, contractor repair costs, and a portion of the advice letter preparation costs recorded to its UCRMA, to a balancing account for recovery. Dunnigan is now in agreement with the Division's recommended surcharge shown in Appendix A.

The Division conducted an earnings test. Using Dunnigan's 2009 Annual Report, the Division determined that Dunnigan did not exceed its authorized rate of margin on a recorded basis. The increase will not result in a rate of margin greater than last authorized for Dunnigan.

The recommended surcharge is \$3.17 for each rate category for a period of twelve months. The surcharge rates are shown in Appendix A. At the Division's recommended rates shown in Appendix A, the monthly bill for a flat rate residential unit connection will increase from \$28.94 (which includes a surcharge of \$4.72 as contained in AL 5-A and approved on August 2, 2010) to \$32.11 or 10.95% of Dunnigan's adopted gross revenues<sup>4</sup>.

Consistent with Public Utilities Code section 792.5, the Division recommends that Dunnigan be required to track revenues collected under the surcharge in a balancing account and to ~~refund~~account for any ~~excess revenues over or under~~ collected ~~to the ratepayers~~revenues in its next GRC or sooner, via a Tier 1 Advice Letter, if the ~~overcollected~~over or under collected balance exceeds 1% of the most recently adopted revenue requirement.:-

## **COMPLIANCE**

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

## **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

## **FINDINGS**

1. By Advice Letter (AL) 7, dated August 13, 2010, Dunnigan Water Works (Dunnigan) requests authorization to recover those emergency unanticipated pump repairs and replacement costs that it recorded to the Unanticipated Repair Costs Memorandum Account (URCMA), reflected in its tariff's Preliminary Statement, as authorized by Decision (D.) 92-03-093.

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<sup>4</sup> Thus, the increase exceeds the 2% of the utility's last adopted gross revenues figure contained in Ordering Paragraph 2 of D.92-03-093 and therefore should be recovered by a surcharge.

2. Notice of the proposed surcharge recovery was mailed to customers on August 27, 2010. AL 7 was served as required by General Order 96-B on August 13, 2010. No protests or responses were received.
3. During a week in mid-July 2009, Dunnigan's main well pump failed forcing the utility to serve its customers from its secondary well and pump while the main well pump was repaired.
4. Dunnigan incurred \$264.40 for a generator rental and \$8,175.37 in contractor costs, payable to Layne Christensen Company, for labor and materials necessary to remove and replace the main well pump and motor.
5. Dunnigan acted prudently by repairing and replacing pumping equipment that is crucial to its operations while ensuring that adequate water service was provided to its customers.
6. Failure of water pumps and motors within the water industry is usually unpredictable in nature; in this case, the failure of Dunnigan's main well pump could not have been anticipated or predicted and, as such, planned for or included in rates.
7. Dunnigan also submitted for recovery other expenses it claims were associated with the pump failure; these expense were for water sampling costs, employee labor costs and costs payable to a consultant retained for the purpose of filing this request with the Commission.
8. By AL 5-A, approved on August 2, 2010, Dunnigan requested and received authority to amortize and recover water testing costs it booked to its Water Quality Memorandum Account, including the same water sampling costs requested herein.
9. Dunnigan's current request to recover water sampling expenses is duplicative and should be denied.
10. Expenses the Commission has authorized to be tracked in memorandum accounts, such as those tracked in URCMAs, may only be eligible for recovery if they correspond to costs that are above and beyond those already included in rates.
11. Dunnigan's request to recover employee labor costs does not correspond to costs above and beyond those already included in current rates, and, as such, these employee labor costs are not eligible for recovery.

12. Dunnigan should be allowed to recover \$800 for preparation costs with respect to AL 7 via the surcharge authorized in this resolution.
13. Recovery, over a one year period, of the \$800 for preparation costs with respect to AL 7 is justified because this amount represents a very small fraction of both the unanticipated expenses and Dunnigan's most recently adopted annual revenue requirement.
14. Dunnigan should remove \$2,326.96 corresponding to water sampling, employee labor, and a portion of advice letter preparation costs from its URCMA, and surcharge recovery for this amount should be denied.
15. The generator rental and contractor costs that Dunnigan recorded in the URCMA for the unanticipated repair and replacement of its main well pump and motor are eligible for recovery.
16. Dunnigan did not receive any revenue in its last general rate increase, authorized on August 20, 2009, for the generator rental and contractor costs incurred to repair and replace the main well pump and motor.
17. Dunnigan should be permitted to transfer \$9,239.77, consisting of the generator rental and contractor repair costs, and a portion of the preparation costs with respect to AL 7, recorded to its URCMA to a balancing account for recovery.
18. With respect to the \$9,239.77 in costs, consisting of the generator rental and contractor repair costs and a portion of the preparation costs with respect to AL 7, Dunnigan has shown that: (a) it acted prudently in incurring these costs, (b) it paid a reasonable amount for the services and goods it procured, (c) these costs are not covered by other authorized rates, and (d) it is appropriate for Dunnigan's customers to pay for these costs in addition to otherwise authorized rates.
19. Recovery of the \$9,239.77 in costs, consisting of the generator rental and contractor repair costs and a portion of the preparation costs with respect to AL 7, is appropriate under Ordering Paragraph 2 of D.92-03-093.
20. The URCMA is reflected in the Preliminary Statement of Dunnigan's tariff.
21. Dunnigan is now in agreement with the Division's recommended surcharge shown in Appendix A.

22. This surcharge will not result in a rate of margin greater than the last authorized for Dunnigan.
23. The \$3.17 monthly surcharge proposed by the Division (as shown in Appendix A) is reasonable and should be adopted.
24. The Commission finds, after investigation by the Division that the rate surcharge hereby authorized is justified and the resulting rates are just and reasonable.

**THEREFORE IT IS ORDERED THAT:**

1. Dunnigan Water Works is permitted to transfer \$9,239.77 from its Unanticipated Repair Cost Memorandum Account to a balancing account for recovery. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
- ~~2. Dunnigan Water Works shall remove \$2,326.96 from its Unanticipated Repair Memorandum Account.~~
2. ~~3.~~ Authority is granted under Public Utilities Code Section 454 for Dunnigan Water Works to file a Tier 1 advice letter incorporating the revised schedules attached to this resolution as Appendix A, and concurrently to cancel its presently effective rate Schedules Nos. 1, General Flat Rate Service, and 1A, General Metered Service. The effective date of the revised rate schedules shall be five days after filing.
3. ~~4.~~ Dunnigan Water Works shall track the revenue from the \$3.17 monthly surcharge in a balancing account and ~~to refund~~account for any ~~excess revenues~~over or under collected ~~to the ratepayers~~revenues in its next GRC or sooner, via a Tier 1 Advice Letter, if the ~~overcollected~~over or under collected balance exceeds 1% of the most recently adopted revenue requirement. ▸

4. ~~5.~~ This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on January 13, 2011; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

APPENDIX A  
Sheet 1

DUNNIGAN WATER WORKS COMPANY

Schedule No. 1

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate service furnished on a monthly basis.

TERRITORY

Dunnigan along Interstate 5 in the area of County Roads 9 and 99, County Fair Estates, Road 8 Plaza, and Dunnigan Truck and Travel Center, Yolo County.

RATES

	<u>Per Service Connection Per Month</u>
For each Mobile Home Residential Unit	\$24.22
For each Recreational Vehicle Unit	\$24.22
For each Commercial Business Unit	\$24.22

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. The above general flat rate service applies to a service connection not larger than one-inch in diameter.
4. An additional single-family residential unit shall qualify for additional charge only if such a residential unit includes cooking and bathing facilities.
5. For service by covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1-A, General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the metered service charge for the same period shall be made on or before that day.
6. For a period of six (6) months from the effective date of this tariff sheet a surcharge shall be paid by each customer in the amount of \$4.72 plus interest computed at the 90-day commercial paper rate and collected at the end of the 6 month period after \$6,876.02 has been collected.
7. For a period of twelve (12) months, as authorized by the California Public Utilities Commission, (N) a surcharge of \$3.17 plus interest computed at the 90-day commercial paper rate will be added to each costumer bill to recover \$9,239.77 for repair and replacement of well pumping equipment recorded to the Unanticipated Repair Memorandum Account. (N)

APPENDIX A  
Sheet 2

DUNNIGAN WATER WORKS COMPANY

Schedule No. 1A

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on a monthly basis.

TERRITORY

Dunnigan along Interstate 5 in the area of County Roads 9 and 99, County Fair Estates, Road 8 Plaza, and Dunnigan Truck and Travel Center, Yolo County.

RATES

Quantity Rate:

All Water used per 100 cu. ft..... \$1.72

Service Charge:

Per Meter  
Per Month

For	5/8 x 3/4-inch meter	\$ 6.68
For	3/4-inch meter	\$ 10.01
For	1-inch meter	\$ 16.68
For	1-1/2-inch meter	\$ 33.36
For	2-inch meter	\$ 53.37
For	3-inch meter	\$100.08

The service charge is a readiness-to-serve charge which is applicable to metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. In accordance with Section 2714 of the Public Utility Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.
4. For a period of six (6) months from the effective date of this tariff sheet a surcharge shall be paid by each customer in the amount of \$4.72 plus interest computed at the 90-day commercial paper rate and collected at the end of the 6 month period after \$6,876.02 has been collected.
5. For a period of twelve (12) months, as authorized by the California Public Utilities Commission, (N) a surcharge of \$3.17 plus interest computed at the 90-day commercial paper rate will be added to each costumer bill to recover \$9,239.77 for repair and replacement of well pumping equipment recorded to the Unanticipated Repair Memorandum Account. (N)

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DRAFT

January 13, 2011

Dunnigan/AL 7/RSK/PTL/CCG/jlj

(END OF APPENDIX A)

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