

PROPOSED RESOLUTION

Resolution W-4973
DWA/RSK/BMD/JB5/KCB/jp4

AGENDA ID #12765
ITEM #

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-4973
February 27, 2014

R E S O L U T I O N

(RESOLUTION W-4973) GREAT OAKS WATER COMPANY, ORDER AUTHORIZING REQUEST TO IMPLEMENT A SURCHARGE TO AMORTIZE AND RECOVER A TOTAL OF \$245,559, COMPRISED OF THE \$94,600 BALANCE IN THE 2011 AND 2012 CERTIFIED PUBLIC ACCOUNTANT AUDIT COST MEMORANDUM ACCOUNTS, \$23,279 IN THE PURCHASED POWER BALANACING ACCOUNT, AN OVER COLLECTION OF \$88,412 AND \$1,445 RESPECTIVELY IN THE GROUNDWATER CHARGES AND IRRIGATION GROUNDWATER CHARGES BALANCING ACCOUNTS, \$201,854 IN THE LOW INCOME LOST REVENUE MEMORANDUM ACCOUNT,\$12,966 IN THE INTERIM RATE TRUE-UP BALANCING ACCOUNT AND \$2,716 UNDERCOLLECTED FROM MUTLIPLE BALANCING ACCOUNTS IN A PREVIOUS SURCHARGE.

By Advice Letter No. 234-W Filed On September 12, 2013.

SUMMARY

This Resolution grants Great Oaks Water Company (Great Oaks) the authority to implement a surcharge of \$0.0512 per hundred cubic feet (Ccf) on the quantity charge of its active service connections for 12 months to amortize and recover the balance of \$245,559 from three Memorandum Accounts and five Balancing Accounts, including the Certified Public Accountant Audit Cost Memorandum Accounts (ACMA) for 2011 and 2012; the Purchased Power Balancing Account; Groundwater Charges for both the Agricultural and Other Than Agricultural Balancing Accounts; the Low Income Lost Revenue Memorandum Account; the Interim Rate True-Up Balancing Account; and the recovery of under-collection from multiple balancing accounts from a previous surcharge. The Division of Water and Audits (DWA) has reviewed all of the amounts requested for recovery by Great Oaks in each of the memorandum and balancing accounts and recommends that Great Oaks be allowed to recover these amounts. The balance from the various accounts is equivalent to 1.69% of the total adopted revenue requirement.

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Great Oaks filed Advice Letter (AL) 234-W on September 12, 2013, with a Tier 3 designation, to recover the balance in the above-mentioned Balancing and Memorandum Accounts.

BACKGROUND

Great Oaks has included in its request the recovery of funds booked to both Memorandum and Balancing Accounts, which normally would have been submitted under two separate ALs: a Tier 1 AL for the funds booked to the Balancing Accounts, and a Tier 3 AL for the Memorandum Account funds. Great Oaks has instead filed a single Tier 3 AL in order to amortize the combined balance in a series of authorized memorandum and balancing accounts in order to receive authorization to collect the balance through a single surcharge. Great Oaks hopes to avoid possible confusion for its customers and ease the burden posed by multiple surcharges.

Audit Cost Memorandum Account

Great Oaks was directed by the California Public Utilities Commission (Commission) in Decision (D.) 10-12-057 to engage the services of an independent Certified Public Accountant (CPA), with utility-client experience, to perform a full and complete audit of Great Oaks beginning with all transactions as of January 1, 2009.¹ Prior to D.10-12-057, Great Oaks did not have its financial statements audited by an independent CPA. Audited financial statements provide greater assurance that Great Oaks' reported earnings and financial condition are accurate and complete. The Commission authorized the recovery of the expenses for the 2009 and 2010 audits in Resolution (Res.) W-4928, issued August 3, 2012. Great Oaks is seeking recovery of the 2011 and 2012 audits in AL 234-W. Great Oaks received approval for Wright Ford Young to conduct the 2011 audit through AL 219-W.

Purchased Power Balancing Account

Great Oaks' Purchased Power Balancing Account was established in Res. W-4594. The incremental methodology used to determine the increase in recorded power costs is based upon a DWA guidance memo, using a calculated composite rate. Specifically, there are a number of well and booster pumps utilizing four different electric rate schedules with various seasonal, times of day, and surcharge rates. The composite rate is a weighted average of the four rates. The incremental rate was calculated as the difference between the recorded composite and adopted average power cost.

¹ D.10-12-057, Ordering Paragraph 5.

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Groundwater Charges Balancing Accounts

The Santa Clara Valley Water District (SCVWD) has legal authority to regulate the pumping of groundwater within Great Oaks' service territory, and its board authorizes groundwater charges, also known as pump taxes, as part of its effort to deter over pumping of the aquifer. The ground water charges set by SCVWD are divided into four separate rate categories, per type of customer; non-agricultural and agricultural users, and again geographically into northern and southern users.

Great Oaks filed Tier 1 AL 210-W on June 13, 2011, to establish the two groundwater charge balancing accounts: one for agricultural irrigation, the other for non-agricultural use. Through AL 227-W, Great Oaks subsequently filed and received approval for a pump tax increase in 2012.

Low Income Lost Revenue Memorandum Account

In Res. W-4594 the Commission authorized Great Oaks to give a 50% reduction in the bimonthly service charge to low income customers and establish a memorandum account to track expenses and the rebate provided under this program. Initially the authorized overhead expenses were calculated as "2 hours/year/customer at \$60/hour" which provided \$120 per year per customer (\$10 per month per customer). D.11-05-020 provided for Low Income Data Sharing between regulated energy and water utilities; having access to Pacific Gas & Electric Company's (PG&E) listing of pre-approved low-income customers within its service territory greatly reduced Great Oaks expense for manually processing and reviewing applications. Accordingly, beginning in September 2012, Great Oaks reduced the overhead expense to \$1.95 per month per customer.

Interim Rate True-Up Balancing Account

D. 07-05-062, issued May 30, 2007, adopted a revised rate case plan (RCP) for Class A water utilities, including Great Oaks. The RCP created a new schedule for the filing of general rate cases (GRC), and also allowed the utility to request interim rates through an AL to help reduce regulatory lag in increasing its revenues. Concurrent with Great Oaks GRC Application 09-09-001, Great Oaks, through AL 196C-W, requested and was granted interim rates beginning September 1, 2009. The interim rates were extended to the completion of the GRC proceeding in AL 198A-W. The GRC proceeding was finally completed with the adoption of D.11-02-003, which corrected errors in the initial decision, D.10-11-034. The new rates become effective on March 1, 2011, with the approval of ALs 200-W and 201-W. Great Oaks requested and was granted the Interim True-Up Balancing Account in AL 215 for the period September 1, 2009, to March 1, 2011.

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Under-Collection of Multiple Balancing Accounts

In AL 224-W Great Oaks requested and was granted authority to collect a quantity surcharge for a 12-month period to recover expenses from four balancing accounts. The uncollected portion of four previous surcharges, \$2,716.10, remains uncollected.

Great Oaks submitted AL 234-W with a Tier 3 designation to recover the balance of the various memorandum and balancing accounts listed above. DWA staff determined that AL 234-W was correctly designated as Tier 3 based on General Order (G.O.) 96-B, Water Industry Rule 7.3.3(7).

NOTICE, SERVICE, AND PROTESTS

On September 28, 2013, Great Oaks published notice of AL 234-W in the San Jose Mercury News, a newspaper of local circulation, pursuant to G.O. 96-B, Water Industry Rule 3.1 and General Rule 4.2. The surcharge requested represents collection of less than ten percent (10%) of the revenue requirement last authorized for Great Oaks. A copy of the published notice was provided to DWA.

On September 12, 2013, Great Oaks served AL 234-W, in accordance with G.O. 96-B, Water Industry Rule 4.1 and General Rule 7.2, on adjacent utilities, and persons on its general advice letter service list. No protests were received to AL 234-W.

DISCUSSION

In order to recover from ratepayers costs recorded in a memorandum account, a utility must show that: (1) it acted prudently when it incurred these costs; (2) the level of booked costs is reasonable; (3) the costs incurred are not covered by other authorized rates; and (4) it is appropriate for ratepayers, as a matter of policy, to pay for these categories of costs in addition to otherwise authorized rates.² Items (3) and (4) were reviewed when Great Oaks requested the establishment of the memorandum accounts. DWA has reviewed all of the amounts requested for recovery by Great Oaks in each of the memorandum and balancing accounts and recommends that Great Oaks should be allowed to recover these amounts.

Audit Cost Memorandum Account

Great Oaks submitted invoices for each of the expenses booked to the 2011 and 2012 ACMA. The 2011 expenses were \$48,586, and totaled \$46,014 for 2012. DWA found that all the expenses were reasonable and related to the authorized services of the CPA.

² Res. W-4824, Ordering Paragraph 5.

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We find that Great Oaks acted prudently when it incurred the costs in the ACMA, as these costs relate to auditor services authorized by the Commission in D.10-12-057. Great Oaks spent reasonable amounts in fees for its 2011 and 2012 audits as determined by DWA's review of the expense invoices booked to the ACMA.

Purchased Power Balancing Account

Between January 2012 and May 2013 PG&E instituted three rate increases and one rate decrease affecting Great Oaks. The increases occurred in February 2012, January 2013, and April 2013, and the decrease occurred in June 2012. The cumulative rate increase for this period was 0.00773 \$/kwh. Great Oaks submitted work papers showing the recorded power and incremental rate changes. Through a data request Great Oaks provided a sample of four months of their PG&E bills, and spreadsheets detailing the methodology for calculating the composite and incremental rates. DWA reviewed the calculations and verified the composite rate and incremental rates as well as the \$23,279 sought for recovery.

Groundwater Charges Balancing Accounts

The Board of the SCVWD reviews the Groundwater Charges near the end of each Water (Fiscal) Year (July 1 through June 30) and adjusts the groundwater charge rate accordingly for the subsequent year. DWA reviewed the SCVWD Board meeting minutes to confirm the amount of the increases in regards to Great Oaks' tariffed rates. For the period of January 2012 through June 2013, Great Oaks over-collected \$88,412 for the Other Than Agricultural Irrigation Account and \$1,445 for the Agricultural Irrigation Account.

Low Income Lost Revenue Memorandum Account

Great Oaks reported an overhead expense of \$77,453 and lost revenue of \$124,221, for a total program cost of \$201,854 for the period January 2012 through August 2013. In response to a data request, Great Oaks provided DWA a monthly breakdown of the number of customers participating in its Low Income Customer Assistance Program. DWA used this information to independently verify the overhead and lost revenue for the program.

Interim Rate True-Up Balancing Account

The Interim Rate True-Up Balancing Account surcharge was in effect from November 15, 2011 to November 14, 2012, and in that time Great Oaks under-collected the required revenue by \$12,966. In response to a data request, Great Oaks provided a monthly breakdown of the quantity of water sold during the true-up period. This information was used by DWA to verify the revenue generated by the interim rate and thus the under-collected amount.

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Under-Collection of Multiple Balancing Accounts

Great Oaks was authorized to recover \$128,992 amortized from multiple balancing accounts, from May 13, 2012 to May 12, 2013. At the end of this period \$2,716.10 remained uncollected. DWA utilized the quantity surcharge rate and monthly water sales data to independently calculate and confirm the amount recovered by Great Oaks.

Rate Base

No change in rate base is requested or proposed in AL 234-W.

Recovery

Surcharges for recovery of memo accounts should be spread across all utility services that have benefited from the money spent and booked to the various balancing and memorandum accounts. As recommended by Standard Practice U-27-W, Rule 56.b, memorandum account amortization surcharges shall be spread over one year for undercollections of less than 5% of gross revenues.

Revenue and Rate Design

AL 234-W requests authorization to impose a surcharge of \$0.0512/Ccf on the quantity charge of its active service connections for a twelve-month period, based upon billing dates, on a rolling basis. The \$245,559 balance being amortized represents 1.69% of Great Oaks' most recent authorized revenue requirement of \$14,561,442³. For the average single-family customer with a 5/8" x 3/4" meter using 13 Ccf of water per month, the surcharge will increase a bi-monthly bill by \$1.42 (1.61%) from \$88.05 to \$89.46.

COMMENTS

This is an uncontested matter that grants the relief requested. Pursuant to Public Utilities Code § 311(g)(2), this Resolution was not circulated for public comment.

FINDINGS AND CONCLUSIONS

1. Great Oaks requests approval to recover a total of \$245,559 from three memorandum accounts and five balancing accounts.
2. Great Oaks requests approval to recover the balance of \$94,600 in its 2011 and 2012 Certified Public Accountant Audit Cost Memorandum Accounts, and \$201,854 from

³ D.13-05-020 Appendix A, Section 3.3

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its Low Income Lost Revenue Memorandum Account pursuant to Standard Practice U-27-W.

3. Great Oaks requests approval to recover the balance of \$23,279 from its Purchased Power Balancing Account; \$12,966 from its Interim Rate True-Up Balancing Account; and \$2,716 for the recovery of the under-collection from multiple balancing accounts approved in Advice Letter (AL) 224-W and the over collections of \$88,412 in the Groundwater Charges Other Than Agricultural Irrigation Balancing Account and \$1,445 in the Groundwater Charges Agricultural Irrigation Balancing Account.
4. Great Oaks filed AL 234-W with a Tier 3 designation to recover funds from both memorandum and balancing accounts instead of separate Tier 1 and Tier 3 ALs in order to receive a single surcharge, to avoid possible confusion for its customers, and to ease the burden posed by multiple surcharges.
5. On September 12, 2013, Great Oaks served AL 234-W on adjacent utilities, and persons on its general advice letter service list.
6. On September 28, 2013, Great Oaks provided customer notice of the surcharge by publishing a notice of the proposed increase in a local newspaper.
7. The Great Oaks balance of \$245,559 represents 1.69% of the most currently authorized operating revenues of \$14,561,442 at the time AL 234-W was filed.
8. Standard Practice U-27-W, Rule 56.b, states that reserve and memorandum account amortization surcharges shall be spread over one year for under collections of less than 5% of gross revenues.
9. Great Oaks meets the requirements of Standard Practice U-27-W for a surcharge to amortize the total balance of the three memorandum and five balancing accounts over one year.
10. Great Oaks has requested a surcharge of \$0.0512 per hundred cubic feet for 12 months to amortize the total balance of the various balancing and memorandum accounts.
11. Great Oaks provided documentation that the only costs it booked in the three memorandum and five balancing accounts are costs directly authorized by the Commission.
12. DWA finds that Great Oaks acted prudently when it incurred costs booked to the three Memorandum and five Balancing accounts.
13. DWA finds that the costs booked in the three Memorandum and five Balancing accounts are reasonable.

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14. The costs requested in the three Memorandum and five Balancing accounts are not covered by other authorized rates.
15. As a matter of policy, it is appropriate for ratepayers to pay for services directly related to audits and low income programs authorized by the Commission.
16. DWA recommends that the balance of \$245,559 in the three Memorandum and five Balancing accounts for Great Oaks should be approved for recovery.
17. DWA determined that a surcharge of \$0.0512 per hundred cubic feet for a 12-month period should amortize the \$245,559 balance and should be approved.
18. This Resolution concerns an uncontested matter that grants the relief requested.
19. This Resolution was not circulated for public comment.

THEREFORE, IT IS ORDERED THAT:

1. Great Oaks' tariff sheets filed with Advice Letter 234-W and attached to this Resolution that amortize a total of \$245,559 from three memorandum accounts and five balancing accounts through a 12-month surcharge of \$0.0512 per hundred cubic feet are approved. The effective date of the revised rate schedules shall be no sooner than five days after the effective date of this Resolution.
2. Great Oaks is authorized to transfer \$94,600 from its 2011 and 2012 Certified Public Accountant Audit Cost Memorandum Accounts and \$201,854 from its Low Income Lost Revenue Memorandum Account to balancing accounts for recovery over a period of twelve months. Great Oaks is authorized to earn interest on the balance in this balancing account, at the 90-day commercial paper rate, from the effective date of this Resolution. Great Oaks shall account for any over or under collections in this balancing account in its next general rate case.
3. This Resolution is effective today.

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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 27, 2014; the following Commissioners voting favorably thereon:

Paul Clanon
Executive Director

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APPENDIX A

Schedule No. 1
GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. To amortize the balance in the Certified Public Accountant Audit Cost Memorandum Account, a surcharge of \$0.03 per 100 cu.ft. will be added to the quantity rate for each customer for a rolling twelve-month period per Commission Resolution.
3. To amortize the balance in the Monterey-style Water Revenue Adjustment Mechanism Account, a surcharge of \$0.0836 per 100 cu.ft. will be added to the quantity rate for Single-Family Residential Customers for a twelve-month period beginning January 15, 2013.
4. To offset the higher Pump Tax imposed by the Santa Clara Valley Water District, effective July 1, 2013, a surcharge of \$0.1192 per 100 cu.ft. will be added to the Quantity Rate for each customer for all water delivered on and after July 1, 2013.
5. To amortize the combined balance in Commission-authorized memorandum and balancing accounts, a surcharge of \$0.0512 per 100 cu.ft. will be added to the Quantity Rate for each customer for all water delivered for a twelve-month period pursuant to Commission Resolution. (N)
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(N)

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Schedule No. 3M
IRRIGATION SERVICE
(Continued)

SPECIAL CONDITIONS

1. The Santa Clara Valley Water District requires the customer to certify the water is used to irrigate commercial agricultural crops for sale to qualify for this rate. It is an express condition of this Irrigation Service that the customer cooperates in making the necessary certification to the Water District.
2. The Santa Clara Valley Water District has surcharges or discounts applicable to water used to irrigate commercial agricultural crops if the customer/farmer participates in the Water District's special programs. These surcharges or discounts are applied per Acre Ft., are granted or imposed by the Water District each month based on the customer/farmer's level of participation, and will be passed through by the Company each month to the customer/farmer.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
4. To amortize the balance in the Certified Public Accountant Audit Cost Memorandum Account, a surcharge of \$0.03 per 100 cu.ft. will be added to the quantity rate for each customer for a rolling twelve-month period per Commission Resolution.
5. Customers who receive water deliveries for agricultural purposes under this schedule, and who present evidence to the Utility that such deliveries qualify for the lower pump tax rates levied by the Santa Clara Valley Water District for agricultural water, shall receive a credit of \$1.2988 per 100 cu.ft. used during the period covered by that bill.
6. To offset the higher Pump Tax imposed by the Santa Clara Valley Water District, effective July 1, 2013, a surcharge of \$0.1192 per 100 cu.ft. will be added to the Quantity Rate for each customer for all water delivered on and after July 1, 2013.
7. To amortize the combined balance in Commission-authorized memorandum and balancing accounts, a surcharge of \$0.0512 per 100 cu.ft. will be added to the Quantity Rate for each customer for all water delivered for a twelve-month period pursuant to Commission Resolution.

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(N)

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Schedule No. 6 CONTRACT RESALE SERVICE

CONDITIONS

1. Resale water service is provided under this tariff only if deemed available, in the sole judgment of the Company. The Company may interrupt service from time to time to protect continuous service to its own retail customers.
2. The Company is not providing fire protection supply as it does for its own retail customers.
3. The retailer receiving service under this tariff shall defend and hold the Company harmless from any failure of service or any other claim of damage or injury once the water passes through the Company's meter into the sole possession of the retailer.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
5. To amortize the balance in the Certified Public Accountant Audit Cost Memorandum Account, a surcharge of \$0.03 per 100 cu.ft. will be added to the quantity rate for each customer for a rolling twelve-month period per Commission Resolution.
6. To offset the higher Pump Tax imposed by the Santa Clara Valley Water District, effective July 1, 2013, a surcharge of \$0.1192 per 100 cu.ft. will be added to the Quantity Rate for each customer for all water delivered on and after July 1, 2013.
7. To amortize the combined balance in Commission-authorized memorandum and balancing accounts, a surcharge of \$0.0512 per 100 cu.ft. will be added to the Quantity Rate for each customer for all water delivered for a twelve-month period pursuant to Commission Resolution.

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END OF APPENDIX A

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GREAT OAKS WATER COMPANY SERVICE LIST OF PROPOSED RESOLUTION W-4973

Municipal Water System
City of San Jose
3025 Tuers Road
San Jose, CA 95121

County Clerk
County of Santa Clara
70 W. Hedding Street
San Jose, CA 95110

Safe Drinking Water Office
Department of Water Resources
1416 9th Street, Room 804
Sacramento, CA 95814

Office of Regulatory Affairs
California Water Service Company
1720 North First Street
San Jose, CA 95112

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA 95118

Raminder Kahlon
Division of Water and Audits
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Danilo E. Sanchez
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Ting-Pong Yuen
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Legal Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3214

Regulatory Affairs
San Jose Water Company
110 West Taylor Street
San Jose, CA 95156