

PROPOSED RESOLUTION

AGENDA ID #14982 (Rev.1)
Item #15

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5098

July 14, 2016

RESOLUTION

(RES. W-5098) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY. ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUES OF \$5,668, AN INCREASE OF 59.03% FOR WATER SERVICES AND \$6,594, AN INCREASE OF 68.67% FOR SEWER SERVICES FOR TEST YEAR 2016.

SUMMARY

By Advice Letter 15-W and Advice Letter 10-S, filed on April 15, 2015, California Hot Springs Water and Sewer Company requests increases of \$12,263, or 127.7% over annual gross revenue for water service, and \$12,263, or 127.7% over annual gross revenue for sewer service for Test Year 2015. California Hot Springs Water and Sewer Company also requests establishment of a water Facilities Fee and a water and sewer Late Fee, and requests increasing the water Reconnection Fee.

For Test Year 2016, this Resolution authorizes an increase of \$5,668, or 59.03% over revenues earned under current rates for water service, and an increase of \$6,594, or 68.67% over revenues earned under current rates for sewer service. These increases are estimated to provide a Rate of Margin of 22.75%. This Resolution also authorizes Facilities Fees of \$3,000, \$5,000, and \$7,500, for 5/8" x 3/4," 3/4," and 1" water meters, respectively, and Late Fees of 1.5 % for unpaid water and sewer service balances. Lastly, this Resolution authorizes an increase of 50% for Reconnection Fees, resulting in rates of \$15 and \$23 for reconnection of water and sewer service during working and nonworking hours, respectively.

California Hot Springs Water and Sewer Company has not implemented a rate increase in five years and has been operating at a negative net revenue and Rate of Margin, thus resulting in a significant rate increase for both the water and sewer systems.

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BACKGROUND

By Advice Letter (AL) 10-S and AL 15-W, California Hot Springs Water and Sewer Company (CHS), a Class D water and sewer utility, has requested authority under Rule 7.6.2 of General Order (G.O.) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase revenues for water service by \$12,263, or 127.7%, and to increase sewer service by \$12,263, or 127.7%, over current rates for Test Year (TY) 2015.

The last General Rate Case (GRC) for CHS became effective on February 2, 2012, pursuant to Resolution W-4901, which authorized an increase in revenues of \$8,118 or 83.46% for water services, and \$8,784 or 90.31% for sewer services. Due to unreliable water use data, in W-4901, the Commission ordered CHS to implement an interim flat rate and file a Tier 3 Advice Letter (AL) the following year to establish metered rates. CHS neglected to put the interim flat rate in place, but did record water usage for a year. On February 22, 2013, CHS filed AL 14 requesting to implement metered rates. However, CHS filed AL 14 improperly as a petition for modification of W-4901, as opposed to a Tier 3 AL, as directed by the Commission in W-4901. Thus, the Water Division (WD) rejected without prejudice CHS's AL 14 on the basis that AL 14 was filed incorrectly. Following the rejection of AL 14, CHS did not implement the rates approved in W-4901 and CHS did not re-file an AL requesting the implementation of metered rates.

Therefore, the present rates currently charged by CHS became effective on December 30, 2011, by approval of AL 12-W and AL 8-S, which authorized a Consumer Price Index (CPI) rate increase of \$291.44 for water services, and \$224.36 for sewer services, or 1.5%, over Test Year 1996 rates established in Resolution (Res.) W-4008.

CHS is owned by Ronald Gilbert, who manages and maintains both the sewer and water systems. CHS provides water and sewer service to the community of California Hot Springs and its vicinity, which is located approximately 25 miles southeast of Porterville in Tulare County. CHS's domestic water supply permit states that CHS is a transient non-community system¹. CHS provides regulated potable water service to 33 service connections, of which 26 are CHS ratepayers and the remaining 7 are owned and partially paid for by Mr. Gilbert, and sewer service to 31 connections, of which 25 are CHS ratepayers and the remaining 6 are owned and partially paid for by Mr. Gilbert.

¹ Water Code §116275 defines a transient non-community water system as a non-community water system that does not regularly serve at least 25 of the same persons over six months per year.

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CHS's water system is supplied by a set of two developed springs, an east set (Springs 01) and a west set (Springs 02). Water from Springs 01 flows into catchment basins, and is subsequently pressurized by a 1.5 HP pump to deliver hot water at approximately 120°F to a 3,000 and 2,500 gallon storage tank. The two storage tanks provide water to 26 CHS ratepayers as well as an R.V. site, a resort including pools and spas, a house, a garage, a senior center, a wastewater treatment plant, and a bottling plant, all owned by Mr. Gilbert. The overflow from one of the storage tanks flows into a nearby stream. Water from Springs 02 provides hot water at approximately 120°F to five properties owned by Mr. Gilbert. Unused water from Springs 02 is discharged to the ground surface near Spring 02. During prime operating months, a 1 HP pump sends water from the pressure zone supplied by Spring 02 to the pressure zone supplied by Spring 01.

For CHS's sewer system, a packaged aeration plant is situated at the lowest point in CHS's service territory to collect and treat wastewater. The wastewater treatment facility treats domestic wastewater from 25 CHS ratepayers as well as two connections owned by Mr. Gilbert. The treated effluent is pumped to a higher elevation and is sprayed on a set of ponds, where the effluent percolates and evaporates. The remaining sludge is hauled off annually to the Tulare County treatment plant.

NOTICE AND PROTESTS

This GRC is an outreach filing². AL 10-S, AL 15-W, and the corresponding workpapers were prepared internally by WD staff. The proposed rate increase is based on CHS's expenses reported in their 2014 Annual Report, escalated to TY 2015 dollars using inflation factors issued by the Office of Ratepayers Advocates (ORA)³. In accordance with G.O. 96-B, CHS properly filed AL 10-S and AL 15-W on April 15, 2015. A notice of the proposed rate increase was mailed to CHS's customers on May 29, 2015.

WD staff received 10 protests, six phone calls, and several petitions from CHS customers. The letters and e-mails protest AL 10-S and AL 15-W on the grounds that (1) the utility did not properly serve or give notice of the advice letter, (2) the analysis, calculations, or data in the advice letter contain material errors or omissions, and (3) the relief requested in the advice letter is unjust and unreasonable.

² An outreach filing is an AL filing that WD staff prepares for a Class D utility. In the event that a Class D utility does not have financial means or the knowledge required to file an AL, WD staff will draft an advice letter and corresponding workpapers on the utility's behalf and send the draft to the utility for confirmation. Once the utility is in concurrence with the proposed AL, the utility will sign the AL and send it to WD for analysis. Once WD has reviewed the AL, WD will approve the AL, reject the AL, or reject the AL without prejudice.

³ See, ORA December Escalation Memos for 2014

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CHS customers cited additional concerns. CHS customers stated that the water pressure is inadequate and would be insufficient in the event of a fire. CHS customers also had service quality complaints as well, stating that the utility owner often fails to give notice when shutting off the water and doesn't provide a reliable way for customers to contact him. Lastly, CHS customers stated that the utility owner provides water and sewer service to connections he owns at a cost to the ratepayers.

CHS customers recommend rejection of AL 10-S and AL 15-W for the following reasons:

- 1) CHS customers were not given sufficient due process since several customers were not notified of the increase;
- 2) CHS's reported expenses given in their Annual Reports are intermingled with expenses from affiliated companies and do not accurately reflect the cost of service to customers; and
- 3) CHS customers have severe financial limitations.

Upon review, WD found that CHS included some expenses from their affiliated companies in their Annual Reports, so WD adjusted CHS's operating expenses accordingly. WD staff also extended the protest period to allow time for CHS customers to protest. In consideration of CHS customers on limited fixed incomes, WD staff determined that low-income rates would be extremely difficult to implement due to a small customer base. WD's proposed rate design balances the financial requirements of CHS with the rate concerns of its customers.

No public meeting was held. During the protest period, WD received two protests requesting a public meeting on the grounds that the information submitted by CHS to WD contained factual errors.

WD staff decided to not hold a public meeting based on its own findings that: 1) WD found several factual errors and was aware of similar ratepayer concerns; 2) WD corrected such errors in the Resolution and Summary of Earnings; 3) WD contacted several ratepayers personally to discuss its findings; and 4) WD previously performed the field investigation and found that the operations of CHS were adequate.

Nevertheless, WD staff spoke with multiple CHS customers and encouraged further comments and suggestions during the Resolution comment period.

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DISCUSSION

CHS has been operating at significant negative net revenues and a negative Rate of Margin, as shown in Appendix A, because CHS has been charging their customers escalated rates initially authorized in 1996, pursuant to W-4008, rather than the rates authorized by the Commission in 2012 by W-4901. Therefore, the rate increase being authorized herein is considered significant at this time in order to bring CHS up to the authorized Rate of Margin.

WD analyzed CHS's operating expenses and investigated CHS's accounts. Appendix A shows CHS's and WD's estimated summary of earnings at present, proposed, and recommended rates for TY 2015. Appendix B contains tariff sheets amended to reflect the recommended rates.

In general, WD calculated CHS's expenses using an average of recorded expenses from CHS's 2013-2015 Annual Reports or escalated expenses recommended in Resolution W-4901 to TY 2016 dollars. WD verified the expenses payable by ratepayers against other governing agencies, invoices, and other means of analysis. WD staff disagreed with several of CHS's requested operating expenses. CHS has been informed of such differences and agrees with WD's findings.

Operating Expenses

CHS charges 26 ratepayers for water service, and 25 ratepayers for sewer service, as the rest of the connections are owned by Mr. Gilbert and a portion of the costs borne by him. The expenses proposed in this resolution reflect the customers' portion of use from CHS's water and sewer systems and not the properties owned by Ronald Gilbert.

Purchased Water Expense

In CHS's 2014 Annual Report, CHS reported purchased water expenses of \$14,108 for the water system. CHS explained that it cost \$14,108 to acquire 6,412,320 gallons of water from an affiliated company in 2014, even though ratepayers only used 623,466 gallons in 2014. CHS states that the discrepancy between the quantity of purchased water and the quantity of sold water is due to constant pumping of hot water from the springs directly to ratepayers, since no ratepayers have installed hot water heaters in their homes.

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Resolution W-4901 stated that CHS must operate their pumps continuously to deliver hot water to their ratepayers and recommended that CHS stop providing hot water to their service territory. However, Resolution W-4901 did not consider that the pumps need to be run continuously in order to maintain pressure in system. If water is diverted from the storage tank that delivers water to CHS customers, or if the pump is shut off, CHS ratepayers will experience low pressures below 20 pounds per square inch (psi)⁴ or outages when demand rises, which poses a potential threat to public health and safety.

Although the CPUC does not have the authority to regulate the temperature of the water being supplied to CHS ratepayers, WD recommends that CHS continue serving hot water since the pumps must run continuously, regardless, to maintain pressure in the system in order to provide safe and reliable service to its customers.

WD disagrees with CHS's purchased water expense. According to Rule 9 of Standard Practice U-21-W, "Water Utility's parent and affiliates shall not acquire water utility assets if such transfers of assets would impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner. All transfers must be approved by Commission decision per Public Utilities Code §851". WD finds that the sale of water to CHS from an affiliate is not efficient or prudent, and therefore recommends a purchased water expense of \$0.

CHS has been notified of such changes and agrees.

Purchased Power Expense

WD determined that the purchased power expense is high, due to the need to pump continuously to maintain pressure in the distribution system. WD examined Southern California Edison bills from 2014, and estimated the portion of the purchased power expense that should be charged to water service ratepayers, since the same pump is used to deliver cooled water to several of Mr. Gilbert's properties.

Since no sewer usage data is available, WD estimates that CHS ratepayers contribute approximately 42% of wastewater to CHS's sewer system each day. WD estimated the

⁴ Chapter 16 of Section 64602 of the California Waterworks Standards states that each distribution system shall be operated in a manner to assume that the minimum operating pressure in the water main at the user service line connection throughout the distribution system is not less than 20 psi at all times. Accordingly, Section VI(2) of G.O. 103-A states that in the initial construction, extension, or modification of a water system required to serve a new applicant or a change in use, the facilities constructed, extended, or modified shall be designed to be capable of providing, for a minimum of two hours, at a minimum of 20 psi, the flows specified in the 2007 California Fire Code, Appendix B, or its successor.

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CHS ratepayer wastewater use by comparing typical wastewater flows of average to old homes to SWRCB's estimated daily average wastewater flows for CHS's sewer system during wet and dry periods. Therefore, approximately 42% of CHS's purchased power expense for sewer service should be covered by CHS ratepayers.

WD estimates purchased power expenses of \$2,372 and \$889 for the water and sewer systems, respectively.

CHS has been notified of such changes and agrees.

Operating Revenue and Rate Design

In accordance with the Commission's ratemaking policy adopted by Decision (D.) 92-03-093, two methods are available to determine revenue requirement for Class C and D water utilities, the Rate of Return (ROR) and Return on Margin (ROM) methods.⁵ D. 92-03-093 directs WD to calculate the company's rates and revenue requirement using both of these methods and to recommend the ratemaking method resulting in the greater return.⁶ WD determined that the ROM method produced the higher revenue requirement and therefore recommends that the ROM method be used for CHS' TY 2015 GRC.

For 2016, WD's recommended ROM for a class D water utility is 22.75%.⁷ WD's analysis was therefore based on a ROM of 22.75%. Using this ROM, WD calculates a revenue requirement of \$15,270 and \$16,196 for CHS's water and sewer services, respectively.

Water Service

Standard Practice U-7-W (p. 4) provides that Class D utilities are allowed to recover up to 100% of fixed costs in the service charge. However, allocating 100% of the fixed charges to CHS water customers significantly increases minimum monthly bills which will burden low and fixed income customers. By comparison the increase in volumetric charges would be moderate. In order to provide a balance between fixed and volumetric charges, WD staff recommends that 85%

⁵ The revenue requirement and rates using the ROR method are based on company's rate base and under the ROM method the revenue requirement is based on the company's overall expenses which include operating and maintenance and depreciation expenses, income and other taxes, and an operating margin.

⁶ D. 92-03-093, Ordering Paragraph 8.

⁷ Division of Water and Audits' March 28, 2016, memorandum regarding Rates of Return and Rates of Margin for Class C and D Water Utilities: <http://www.cpuc.ca.gov/General.aspx?id=1404> .

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of fixed charges be recovered in the service charge, and 15% be allocated to volumetric charges. Based on a 85% fixed cost recovery, the water service charge would be \$35.46/month for a 3/4" metered customer and the volumetric charge would be \$4.47/CCF.

CHS's current rate structure for water service consists of two tariff schedules: Schedule No. 1, Metered Service, and Schedule No. UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee. At WD's recommended rates shown in Appendix B, the monthly water bill for an average metered customer will increase from approximately \$29.81 to \$48.85, which is an increase of \$19.04, or 63.9%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

AL 15-W also requests the establishment of Schedule No. F, Facilities Fees. For 5/8" x 3/4", 3/4", and 1" meters, AL 15-W requests Facilities Fees of \$3,000, \$5,000, and \$7,500, respectively. Such fees are reasonable and comparable to other nearby Class D utilities.

In addition, AL 15-W requests a late fee of \$30.00 on unpaid balances. After AL 15-W was filed on April 15, 2015, CHS requested that the late fee be changed to 1.5% of the unpaid balance. WD staff finds CHS's requested modification reasonable.

Lastly, CHS requested that Rule 11, Section C, Restoration of Service, be modified to increase the reconnection fee from \$10.00 during working hours and \$15.00 during non-working hours, to \$250.00. Since many CHS customers are seasonal customers, WD staff found CHS's requested increase unjust and unreasonable. Since the reconnection fees became effective April 7, 1997, WD staff proposes escalating the reconnection fees to TY 2015 dollars, resulting in fees of \$15.00 and \$23.00 for working and non-working hours, respectively. CHS has been informed of such differences and agrees with WD's recommendation.

Sewer Service

CHS bills sewer service as a flat rate to its customers since no meters for sewer service are in place. At WD's recommended rates shown in Appendix B, the monthly sewer bill for an average metered customer will increase from approximately \$36.24 to \$53.99, which is an increase of \$17.75, or 49.0%. A

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comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

Like CHS's water services, CHS's current rate structure for sewer service consists of two tariff schedules: Schedule No. 1, General Residential Service, and Schedule No. UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee. WD's recommended rates will result in changes to Schedule No. 1 as given in Appendix B.

AL 10-S also requests a late fee of \$30.00 on unpaid balances. CHS requested that the late fee be changed to 1.5% of the unpaid balance after AL 10-S was initially filed. WD staff finds CHS's requested modification reasonable.

Lastly, in order to bring CHS's sewer service in compliance with CPUC standards, CHS should update its sewer tariff book with all the necessary rules to meet current commission standards.

SAFETY, COMPLIANCE, AND WATER CONSERVATION

User Fees

CHS is up to date on its User Fee payments to the CPUC.

Water Quality

In accordance with the California Code of Regulations, Sections 64400 and 64401.85, CHS is defined as a Transient Non-Community Water System, which is not required by law to be operated by a certified operator. Additionally, since CHS is a transient water system, potable water supplied by CHS must be tested for secondary constituents, such as alkalinity and hardness, only once. The State Water Resources Control Board's (SWRCB) Division of Drinking Water (DDW) mandates that CHS must test its potable water for nitrite every three years and nitrate annually. DDW also mandates that CHS must collect at least one distribution system bacteriological sample per month. DDW states that CHS must report monitoring for general minerals and fluoride once. The sampling for those constituents is due by June 30, 2016. WD staff contacted DDW and DDW staff reported that CHS's potable water supply meets nitrate, nitrite, and bacteriological standards.

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CHS ratepayers have been experiencing outages and low pressures for several years. Since the pump supplying water to CHS ratepayers must be run continuously to maintain pressure in the distribution system, CHS ratepayers occasionally experience low pressures when demand is high. Several boil water notices have been issued in the past due to outages. DDW has ordered CHS to submit a bacteriological sample siting plan by June 30, 2016. Similarly, DDW has also ordered CHS to submit a water system operations plan by July 29, 2016, along with documentation regarding the construction of Springs 01 and Springs 02.

Wastewater Quality

On November 18, 1997, SWRCB issued Water Quality Order No. 97-10-DWQ, outlining general waste discharge requirements for discharges to land by small domestic wastewater treatment systems. On March 8, 2011, CHS submitted an application requesting coverage of its discharge under 97-10-DWQ. SWRCB approved CHS's request and sent CHS a Notice of Applicability on May 23, 2011.

The Notice of Applicability issued by SWRCB states that in accordance with Order 97-10-DWQ, CHS must monitor its activated sludge systems and aerated pond systems. For influent monitoring for both systems, CHS must submit flow rates (gals/day) daily, and 20°C BOD5 results (mg/l) and total suspended solids test results (mg/l) monthly. For effluent monitoring for both systems, CHS must submit 20°C BOD5 results (mg/l), total suspended solids test results (mg/l), nitrate results (mg/l), total nitrogen results (mg/l), and total coliform results (MPN/100 ml), all on a weekly basis.

WD staff contacted the California Regional Water Quality Control Board (RWQCB) on June 23, 2015. RWQCB staff reported that CHS has not been complying with the requirements of 97-10-DWQ. Additionally, at the time, RWQCB reported that CHS had not hired a certified operator to oversee the sewer system, even though CHS is required to do so.

As of October 2015, CHS has complied with some of the RWQCB wastewater testing requirements. CHS has hired a Grade 3 Treatment Operator to oversee the sewer system. CHS estimates that under the RWQCB 97-10-DWQ requirements, their operating expenses will increase by approximately \$37,268 per year for wastewater testing costs, transportation costs, clerical labor, field labor, and treatment operator expenses.

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In accordance with Standard Practice U-27-W (pages 4-5), CHS may file a Tier 1 AL to request an expense offset⁸. Under the items eligible for recovery through an expense offset, CHS should file a Tier 1 Advice Letter to request an expense offset for labor and treatment operator expenses associated with RWQCB wastewater testing requirements.

Similarly, in order to recover wastewater testing costs, WD staff recommends that CHS record the wastewater testing costs in the Water Quality Balancing Account. After a year of incurring wastewater testing costs, CHS may file a Tier 2 AL to implement a surcharge on its sewer rates to recover the costs incurred in the balancing account.

Sewer System Infrastructure

According to CHS's annual reports, CHS's sewer system has fully depreciated. WD staff's field inspection did not include CHS's sewer system. WD staff refers to the field inspection conducted during CHS's previous GRC, W-4901, effective February 1, 2012.

In W-4901, issued February 2, 2012, WD staff stated that the sewer system had reached the end of its useful life, but the owner had begun replacing most of the sewer pipeline. However, it was noted in the Staff's inspection in W-4901 that not all the sewer pipelines had been replaced. During the past year, several CHS customers have complained that a sewer main, located by a potable water main, had broken and was leaking. CHS has since repaired the sewer main. The ratepayers were also concerned that the sewer and potable water lines were in close proximity, posing a potential threat to their water supply.

WD notified DDW of CHS ratepayers' concerns regarding cross-contamination. DDW inspected CHS's facilities on March 16, 2016, and has ordered CHS to complete a cross connection control survey by July 29, 2016.

⁸ Standard Practice U-27-W (p. 3-5) defines an expense offset as a change in rates that allows a utility to pass on to the customers changes in certain costs that are considered to be beyond the utility's control and that are in the public interest to allow the utility to recover. Categories of expenses that are eligible to be offset include, for all water and sewer system utilities, are purchased power, purchased water, and groundwater extraction charges (pump taxes). In addition, Class C and D utilities may request an expense offset for employee labor, payroll taxes, and unanticipated repair costs. Lastly, only Class D utilities are eligible to request an expense offset for a portion of contract work used for the operation and maintenance of plant facilities.

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Water System Infrastructure

According to CHS's annual reports, CHS's water system has fully depreciated. Nevertheless, based on WD staff's field inspection, CHS's potable water piping infrastructure contains some leakage.

Within the past three months, customers have complained to the SWRCB of two water outages. One outage was due to a broken pipe, which has since been fixed, and the other outage occurred at 2 AM due to the diversion of water that typically flows to the storage tank that services CHS ratepayers. A boil water advisory was issued when a broken pipe resulted in an outage, and bacteriological samples were taken in the second incident.

Several CHS customers indicated in their protests and comments that they frequently experience pressure below 40 psi, which is the minimum operating pressure required by G.O. 103-A, Section VII. CHS customers also report that the current water pressure would be inadequate for fire suppression. DDW found that the pump that supplies water to CHS ratepayers must be run continuously in order to maintain pressure in the system.

In several customer comments and protests, CHS ratepayers stated that the storage tank used to supply water to CHS ratepayers isn't at a sufficient elevation to produce adequate pressures. Several customers suggested moving the storage tank to a higher elevation to improve pressure and insulating water pipes to maintain the high temperatures from the springs.

To address customer comments regarding water pressure, outages, and potential cross-contamination, WD determined that the SWRCB is the appropriate governmental agency with the authority to levy violations and penalties to CHS. WD notified SWRCB of the customer comments and protests WD had received, and forwarded SWRCB contact information to CHS ratepayers. WD directed CHS customers to contact the SWRCB's DDW in the event of inadequate water pressure, lack of notice prior to shut off, and inadequate infrastructure. DDW visited CHS and inspected CHS's facilities on March 16, 2016. DDW issued a system evaluation and technical report of the investigation in May of 2016.

If the SWRCB determines that significant improvements are required for CHS's water and sewer systems, CHS may file a Tier 3 AL in accordance with Standard Practice U-

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27-W requesting a rate base offset once the added plant is used and useful⁹. Should CHS file a Tier 3 AL requesting a rate base offset, CHS's filing should include all invoices for the project, or, if that would be too voluminous, a listing of the invoices by date paid, company, and service provided with individual amounts, interest accrued, and the total requested.

Furthermore, as WD staff recommended in Resolution W-4901, CHS should hire a consultant to provide an assessment of upgrades to its water plant in order to provide reliable and safe service. CHS should record costs incurred with the consultant under its Contract Labor Memorandum Account¹⁰. When the balance exceeds 2% of the most recently authorized revenue requirement, CHS should file a Tier 3 AL to request amortization of the Contract Labor Memorandum Account. When CHS files for amortization of this expense, CHS shall have the burden of proving that: (1) the costs recorded in the memorandum account have not been recovered through otherwise authorized rates; (2) recovery of the types of costs recorded in the account is appropriate; (3) the utility acted prudently when it incurred these costs; and (4) the level of costs is reasonable

CHS Service Quality

Several CHS ratepayers have complained that CHS does not meet G.O. 103-A's Telephone Performance Standards, as outlined in Section VIII (3). CHS does not have emergency telephone access, after-hours access, or a message recording device for customers. WD staff recommends that CHS purchase an answering machine and provide a phone number to CHS customers in the event of an emergency.

Several customers also have stated that water service is often interrupted without any notice. Section II(3) of G.O. 103-A states that in the event of an emergency interruption, each utility shall make all reasonable efforts to prevent interruptions to service and when such interruptions occur, shall reestablish service with the shortest possible delay consistent with the safety of its customers, its employees and the general public. Whenever a utility finds it necessary to schedule an interruption to its service, it shall notify all customers to be affected by the interruption, stating the approximate time and anticipated duration of the interruption. Scheduled interruptions shall be made at such

⁹ Standard Practice U-27-W states that a rate base offset allows the utility to adjust its rates to account for a change in utility plant in service that affects rate base. The rate base offset includes adjustments to associated expenses, such as depreciation, taxes, and to charges, such as franchise taxes and uncollectibles, that depend on gross revenues.

¹⁰ W-4467, effective April 28, 2004, authorizes Class C and D water and sewer utilities to establish a memorandum account to track unanticipated changes, beyond the utility's control in contract work that is for operation and maintenance of the plant facilities.

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hours as will provide the least inconvenience to the customers consistent with reasonable operations.

Water Supply and Conservation

Despite the drought, CHS has an adequate supply of water. Ronald Gilbert stated that for the past several years, CHS has been receiving a consistent volume of water from the springs.

In light of the drought, on June 23, 2016, the CPUC issued Resolution W-5103, Resolution Ordering Water Utility Compliance with the State Water Resources Control Board's Resolution No. 2016-0029, Adopted May 18, 2016 Allowing Self-certification Based on Each Water Utility's Available Water Supplies, Drought Conditions, and Projected Demand. The CPUC issued Resolution W-5105 on June 30, 2016, to correct non-substantive errors in W-5103.

Ordering Paragraphs (OP) 1, 3, 4, 5, and 7 from Resolution W-5103, corrected by W-5105, are applicable to CHS. The applicable OPs are as follows:

1. All water utilities under the jurisdiction of the California Public Utilities Commission shall comply with the Drought Emergency Water Conservation Regulation (Emergency Regulation) for statewide urban water conservation adopted by the State Water Resources Control Board by Resolution No. 2016-0029 at its meeting of May 28, 2016.
3. All water utilities shall enforce and comply with Section 864(a) of the State Water Resources Control Board's Emergency Regulation.
4. All water utilities shall continue to take bold actions in its enforcement of the water use restrictions, as set-forth in this Resolution, by including provisions for, but not limited to: (1) mandatory water audits; (2) customer funded remotely read meters; (3) restriction on water use for the top residential, commercial and industrial users, particularly outliers, e.g. those with excessive water use; (4) flow restrictor requirements; (5) restrictive outdoor water rules; and (6) limits on total water use.
5. Class C and D water utilities shall comply with the reporting requirements included in Section 865 (g)2 of the State Water Resources Control Board's Emergency Regulation.

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7. All water utilities shall comply with all monitoring and reporting requirements as established by the State Water Resources Control Board.

CHS's customers are primarily seasonal users that use little to no water for outdoor irrigation. Therefore, in order to comply with Resolution W-5103 and W-5105, WD staff recommends that CHS file Tariff Rule 14.1 and add Schedule 14.1 to CHS's water tariff schedules.

COMMENTS

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

Accordingly, the draft resolution was mailed to the utility, all protestants, and those requesting service, and made available for public comment on June 14, 2016.

CHS ratepayer comments have been incorporated into this resolution and addressed.

FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Water Division is reasonable and should be adopted.
2. California Hot Springs Water and Sewer Company agrees with the Water Division's recommended Summary of Earnings (Appendix A).
3. The rates (Appendix B) recommended by the Water Division are reasonable and should be adopted.
4. California Hot Springs Water and Sewer Company agrees with the Water Division's recommended rate designs (Appendix B).
5. The late fees and facilities fees (Appendix B) recommended by the Water Division are reasonable and should be adopted.

PROPOSED RESOLUTION

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6. California Hot Springs Water and Sewer Company agrees with the Water Division's recommended late fees and facilities fees (Appendix B).
7. The Water Division's recommended reconnection fees and adoption of sewer rules are just and reasonable.
8. The quantities (Appendix D) used to develop the recommendations of the Water Division are reasonable and should be adopted.
9. The water and sewer rate increases authorized herein are justified and the resulting rates are just and reasonable.
10. California Hot Springs Water and Sewer Company should hire a consultant to provide the Company with an assessment of upgrades to its water plant in order to provide reliable service. CHS should record costs incurred with the consultant under its Contract Labor Memorandum Account and file a Tier 3 Advice Letter requesting to implement a surcharge to recover the costs incurred in the Contract Labor Memorandum Account.
11. California Hot Springs Water and Sewer Company is complying with Water Quality Order 97-10-DWQ issued by the California Regional Water Quality Control Board. As a result, California Hot Springs Water and Sewer Company estimates that its sewer system expenses will increase by approximately \$37,268 annually.
12. In order to recover the increase in sewer system expenses due to compliance with Water Quality Order 97-10-DWQ, California Hot Springs Water and Sewer Company should file a Tier 2 Advice Letter requesting an expense offset for associated employee labor costs and contract labor costs related to the operation and maintenance of the sewer system, after a year of incurring such expenses. Similarly, in order to recover wastewater testing costs associated with Water Quality Order 97-10-DWQ, California Hot Springs Water and Sewer Company should record all testing costs in the Water Quality Balancing Account.
13. In light of the ongoing drought, California Hot Springs Water and Sewer Company should file a Tier 2 Advice Letter to request to add Rule 14.1 and/or Schedule 14.1 to its tariffs.

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THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to California Hot Springs Water and Sewer Company to file a supplemental Advice Letter with the revised water and sewer rate schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective rate Schedules: Schedule No. 1 (Water), Metered Service, and Schedule No. 1 (Sewer), General Residential Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Authority is granted under Public Utilities Code Section 454 to California Hot Springs Water and Sewer Company to file a supplemental Advice Letter with the new water late fee schedule, the new water facilities fee schedule, and the new sewer late fee schedule. The new schedules are attached to this Resolution as Appendix B. The effective date of the schedules shall be five days after the date of filing.
3. Authority is granted under Public Utilities Code Section 454 to California Hot Springs Water and Sewer Company to file a supplemental Advice Letter adding all the applicable sewer rules to the sewer tariff schedules. The effective date of the schedules shall be five days after the date of filing.
4. 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 July 14, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

PROPOSED RESOLUTION

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APPENDIX A CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Summary of Earnings – Test Year 2015

	Utility Estimated Rates		Branch Estimated Rates		
	Present	Requested	Water and Sewer Present	Water Recommended	Sewer Recommended
<u>OPERATING REVENUE</u>					
Metered Rate Water Sales	9,602	21,865	9,602	15,270	0
Flat Rate Sewer Sales	9,602	21,865	9,602	0	16,196
Subtotal	19,204	43,730	19,204	15,270	16,196
<u>OPERATING EXPENSES</u>					
610 Purchased Water	13,925	13,925	0	0	0
615 Purchased Power	5,216	5,216	3,260	2,732	889
618 Other Volume Related Expenses	148	148	576	288	288
630 Employee Labor	0	0	0	0	0
640 Materials	1,393	1,393	821	361	461
650 Contract Work - General	0	0	0	0	0
Water Testing	0	0	1,781	880	901
660 Transportation Expenses	2,725	2,725	1,201	527	674
664 Other Plant Maintenance	3,067	3,067	1,760	773	987
670 Office Salaries	0	0	0	0	0
671 Management Salaries	0	0	8,000	4,000	4,000
674 Employee Pensions & Benefits	0	0	0	0	0
676 Uncollectibles Expense	1,438	1,438	1,210	605	605
678 Office Services & Rentals	0	0	277	122	155
681 Office Supplies & Expenses	1,148	1,148	585	257	328
682 Professional Services	0	0	0	0	0
684 Insurance	871	871	853	422	431
688 Regulatory Commission Expense	3,604	3,604	2,195	313	1,881
689 General Expenses	118	118	404	177	227
Subtotal	33,652	33,652	22,924	11,097	11,827
Depreciation	0	0	0	0	0
Taxes Other than Income Taxes	807	807	807	403	403
Income Taxes	0	2,090	0	1,245	1,275
Interest	0	0	0	0	0
TOTAL DEDUCTIONS	34,459	36,549	23,730	12,745	13,505
NET REVENUE	-15,255	7,181	-4,526	2,524	2,691
<u>RATE BASE</u>					
Average Plant	62,443	62,443	62,443	62,443	62,443
Average Accumulated Depreciation	62,443	62,443	62,443	62,443	62,443
Net Plant	0	0	0	0	0
Less Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus Working Cash	4,798	4,798	3,277	1,454	1,823
Materials & Supplies	0	0	0	0	0
Rate Base	4,798	4,798	3,277	1,454	1,823
RATE OF MARGIN	-45.33%	21.34%	-19.74%	22.75%	22.75%

END OF APPENDIX A

PROPOSED RESOLUTION

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APPENDIX B (Page 1/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

Quantity Rate:

For all water, per 100 cubic feet	\$4.47
-----------------------------------	--------

Service Charge:

Per meter per month

For 5/8x3/4-inch meter	\$23.64
------------------------	---------

For 3/4-inch meter	\$35.46
--------------------	---------

For 1-inch meter	\$59.09
------------------	---------

The Service Charge is a readiness-to-serve charge, which is applicable to all metered services, and to which is to be added to the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee as set forth in Schedule No. UF.

(cont.)

PROPOSED RESOLUTION

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APPENDIX B (Page 2/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

	Per Service Connection
	Per Month
For a single family residence	<hr/>
	\$53.99

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(cont.)

PROPOSED RESOLUTION

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APPENDIX B (Page 3/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. LC

LATE PAYMENT CHARGE

APPLICABILITY

Applicable to all metered service.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

Late Charge: A late charge of 1.5% times the unpaid balance is subject to special conditions below.

SPECIAL CONDITIONS

1. The balance is unpaid and subject to a late charge if the bill is past-due, or delinquent, as defined in Rule No. 11, Section B.1.a.
2. The late charge should be imposed only once on a delinquent bill since the account would be shut-off before a subsequent bill and then subject to the reconnection fee as authorized by Tariff Rule No. 11.
3. All bills shall be subject to the reimbursement fee as set forth on Schedule No. UF.

(cont.)

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APPENDIX B (Page 4/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. F

FACILITIES FEE

APPLICABILITY

Applicable to all customers applying for service from the utility in the territory served not previously connected to its distribution mains, not disconnected for more than ninety days, or for additional service connections to existing premises, and for increase in size or change in use. The Utility may waive facilities fees for new connections not yet installed for which service has been committed by the Utility prior to the effective date of Schedule No. F.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

Initial Fee for each Service Connection	
For 5/8 x 3/4 inch meter	\$3,000
For 3/4 inch meter	\$5,000
For 1 inch meter	\$7,500

SPECIAL CONDITIONS

1. Facilities Fees are payable in addition to and do not limit any charges for extension of mains that may be required under Rule 15, Main Extensions.
2. Payments made under this schedule are not subject to reimbursement as set forth in Schedule No. UF.
3. Facilities Fees shall be deposited within ten days of receipt in a separate interest bearing bank account.
4. Facilities Fees shall be treated as contributions in aid of construction and follow the requirements as specified in Internal Revenue Code Section 118 to qualify as such.
5. When actually used, Facilities Fees shall be accounted for as contributions in aid of construction in accordance with the Commission's prescribed Uniform System of Accounts. The plant constructed with Facilities Fees shall be excluded from rate base for rate making purposes.
6. The Utility shall annually report Facilities Fees collected, utilized, and the remaining account balance, including interest. This report shall accompany the submission of the Utility's Annual Report.

END OF APPENDIX B

PROPOSED RESOLUTION

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Water Division

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APPENDIX C CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Comparison of Rates – Test Year 2015

METERED WATER SERVICE

Per meter per month

	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
For 5/8x3/4-inch meter	\$17.26	\$23.64	36.95%
For 3/4-inch meter	\$25.88	\$35.46	37.00%
For 1-inch meter	\$43.04	\$59.09	37.30%

WATER QUANTITY RATES

All water, per 100 cu. ft.

	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
	\$1.31	\$4.47	240.89%

FLAT RATE SEWER SERVICE

Per connection per month

	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
	\$36.24	\$53.99	48.97%

Comparison of a monthly typical bill for residential metered customer with a 3/4" meter and flat rate sewer service is shown below at current rates and recommended rates for TY 2015.

<u>Usage (Ccf)</u>	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
0	\$62.12	\$89.44	43.98%
1	\$63.43	\$93.91	48.05%
2	\$64.74	\$98.37	51.95%
3 (Avg)	\$66.05	\$102.84	55.70%
4	\$67.36	\$107.30	59.30%
5	\$68.67	\$111.77	62.76%

END APPENDIX C

PROPOSED RESOLUTION

Resolution W-5098
Water Division

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APPENDIX D (Page 1/2) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Adopted Quantities – Test Year 2015

	<u>Water</u> <u>Per Year</u>	<u>Sewer</u> <u>Per Year</u>
1. Purchased Power		
Southern California Edison		
Quantity (kWh):	11,065	2,404
Average Cost (\$/kWh):	\$0.21434	\$0.36973
Total Purchased Power:	\$2,372	\$889
2. Purchased Water	\$0	\$0
3. Payroll		
Employee Labor:	\$0	\$0
Office Salaries:	\$0	\$0
Management Salaries:	\$4,000	\$4,000
4. Payroll Taxes	\$0	\$0
5. Property Taxes	\$403	\$403
6. Service Connections		
<u>General Water Metered Sizes</u>	<u>Number of Connections</u>	
5/8 x 3/4" meters:	0	
3/4" meters:	26	
1" meters:	0	
1-1/2" meters:	0	
Total Metered:	26	
<u>General Sewer Service</u>	<u>Number of Connections</u>	
Per Connection per month	25	
7. Water Sales (CCF)	942.16	0

(cont.)

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APPENDIX D (Page 2/2) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Adopted Quantities – Test Year 2015

	Water	Sewer
1. Operating Revenue	\$15,270	\$16,196
2. Operating Expenses	\$11,097	\$11,827
3. Property Taxes	\$403	\$403
4. Payroll Taxes	\$0	\$0
5. Depreciation	\$0	\$0
6. Taxable Income for State Tax	\$3,770	\$3,966
7. State Tax (\$800 minimum)	\$800	\$800
8. Taxable Income for FIT	\$2,970	\$3,166
9. Federal Income Tax	\$445	\$475
10. Total Tax	\$1,648	\$1,678

Federal Tax Rate: 15% for 1st \$50,000 of Taxable Income
25% for next \$25,000 of Taxable Income
34% for next \$25,000 of Taxable Income
39% for next \$235,000 of Taxable Income

State Tax Rate: 8.84%

END APPENDIX D

CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

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