

# PROPOSED RESOLUTION

Resolution W-5142  
WD

Agenda ID #15798

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5142  
June 29, 2017

### RESOLUTION

**(RES. W-5142) DEL ORO WATER COMPANY (DOWC),  
MAGALIA DISTRICT. ORDER AUTHORIZING A  
MONTHLY SURCHARGE OF \$10.88 AT \$3.63 PER  
CUSTOMER PER MONTH OVER 3 MONTHS TO  
RECOVER \$2,895 RECORDED IN DOWC'S STATEWIDE  
LOST REVENUE RECOVERY MEMORANDUM  
ACCOUNT TO BE PAID FOR BY RATEPAYERS.**

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### SUMMARY

By Advice Letter (AL) 480, filed on March 10, 2017, Del Oro Water Company (DOWC), a Class B Water Utility, seeks to recover the lost revenues adjusted for drought-related changes in operational costs, as a result of the Magalia District's implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan as recorded in its Statewide Lost Revenue Recovery Memorandum Account (SLRRMA), from April 1, 2014 through December 31, 2016.

This resolution grants a surcharge of \$10.88 over three (3) billing cycles at \$3.63 per month to each customer's bill in order to recover the lost revenues, adjusted for changes in operational costs, incurred in the SLRRMA.

### BACKGROUND

On January 17, 2014, Governor Edmund G. Brown Jr., proclaimed a Drought State of Emergency and directed state officials to take all necessary actions to prepare for these drought conditions. In accordance with the Governor's directives, the Commission issued Resolution W-4976 adopting drought procedures for water conservation, rationing, and service connection moratoria ("Drought Procedures") on February 27, 2014 and required that all Class A and B water utilities that had an existing Tariff Rule 14.1 to activate the rule within 30 days of the Resolution's effective date. The Drought Procedures, in addition to providing steps to be taken when a utility suffers from a water

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shortage, provided that a utility without a full revenue decoupling Water Revenue Adjustment Mechanism may request to add a Water Conservation Memorandum Account to track lost revenue associated with reduced sales as a result of activating Rule 14.1.

By AL 367-B, effective February 27, 2014, DOWC established a SLRRMA to track the lost revenues due to lower sales, revenues from fines, penalties, and surcharges, and drought-related changes in operational costs in all of DOWC's Districts, as a result of implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan. The SLRRMA includes a provision that accumulated balances will be reduced by a 20 basis point risk reduction, and then further reduced if recovery would cause the district to earn more than its authorized rate of return. This is consistent with the methodology established in D. 90-08-055, D.91-10-042, and Standard Practice U-40 (Commission Policy).

By Advice Letter 480, Del Oro Water Company (DOWC) has requested authority under General Order (G.O.) 96-B and Section 454 of the Public Utilities Code to increase rates to recover the accumulated balances in its SLRRMA for its Magalia District.

The DOWC's Magalia District's present rates became effective on March 08, 2017, by approval of Advice Letter (AL) 476 which authorized a Consumer Price Index (CPI) rate increase.

## **NOTICE AND PROTESTS**

AL 480 was served on the service list on March 10, 2017 in accordance with the provisions of G.O. 96-B. DOWC's customers were notified of the proposed surcharge through a bill insert, and to date, no protests were received.

## **DISCUSSION**

By AL 480, filed on March 10, 2017, DOWC seeks to recover the accumulated balance in the SLRRMA from April 1, 2014 through December 31, 2016 in its Magalia District, as a result of the DOWC's implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan.

Water Division (WD) reviewed DOWC's calculations of lost revenues due to lower sales and found them consistent with Commission Policy. WD also reviewed the revenues

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from fines, penalties, and surcharges, and drought-related changes in operational costs and found them consistent with Commission Policy.

## DOWC's Lost Revenues

DOWC tracked lost revenues from the three year period of April 1, 2014 through December 31, 2016. The lost revenues were mainly due to the reduced sales associated with the Magalia's implementation of Tariff Rule 14.1, Stage 2 Water Shortage Contingency Plan (WSCP). Additional expenses tracked in the SLRRMA include printing and mailing costs, to communicate with customers about the Stage 2 WSCP and the need to conserve water. The expense of conducting a public participation meeting to inform customers about the company's Stage 2 WSCP was also tracked.

The lost revenue over the three-year period totaled \$46,410, before subtracting \$49,073 for purchased water adjustments which were recorded in the SLRRMA. The WD reviewed DOWC's lost revenues calculation recorded in the SLRRMA and agrees with DOWC's lost revenue amount.

## DOWC's Purchased Water

DOWC's customers reduced their water consumption by an average of 25.97% compared to the 2016 water usage over the same period.<sup>1</sup> However, relative to the adopted water sales authorized by Res. W-5012, Magalia District's last GRC, DOWC's customers reduced their water consumption by an average of 138,716 CCF or 18% for the April 1, 2014 through December 31, 2016 time period. The savings in purchased water expense is a credit against the lost revenue in DOWC's SLRRMA.

Additionally, according to the instructions provided in the Drought Procedures in Standard Practice (SP) U-40<sup>2</sup>, DOWC subtracted from the SRRLMA balance, the equivalent of 20-basis points (0.21%) of DOWC's most recently adopted return on equity of 10.10%, resulting in a net balance of \$36,152 recorded in the SLRRMA.

## DOWC's Purchased Power and Other Volume Related Expenses

There were no savings in purchased power expenses because the Pacific Gas and Electric electricity rates increased in the Magalia District, exceeding the forecasted electricity charges from the previously authorized rates in Res. W-5012. Also, there were

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<sup>1</sup> Based on DOWC's reported water production data to the Commission and SWRCB.

<sup>2</sup> Drought Procedures, SP U-40, paragraph 36, pg. 12.

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no savings in other volume related expenses; rather, there was an increase because the Magalia district began implementing treatment for its groundwater supply with chlorine in 2015. This was not forecasted into the volume related expenses from the last GRC as well.

DOWC proposes to collect a one-time surcharge of \$10.88 at \$3.63 per month from each customer over 3 months to recover the accumulated balance of \$2,895 tracked in DOWC SLRRMA. The WD concurs with DOWC's approach for calculating the recovery amount.

## Amortization of DOWC's SLRRMA

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden of meeting the following standards:

- 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) 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).

In this instance, DOWC is seeking to recover the costs and lost revenues recorded in its SLRRMA.

The drought-related charges in operational costs and lost revenues resulted from DOWC's compliance with Resolution W-4976. DOWC acted prudently by:

- 1) preparing and implementing the company's Stage 2 WSCP in Tariff Rule 14.1;
- 2) communicating and informing customers about the Stage 2 WSCP and the need to conserve water; and
- 3) conducting a public participation meeting to inform customers about the company's Stage 2 WSCP and responding to its customers' questions and concerns.

With respect to the second standard, the WD reviewed the \$2,895 recorded in DOWC's SLRRMA and found these expenditures to be prudent and reasonable. Furthermore, the WD reviewed DOWC's lost revenues and concurs with the company's computation, including purchased water and power and other volume related expense adjustments to account for the lower water sales.

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With respect to the third standard, the WD reviewed DOWC's last GRC, authorized on November 6, 2014 by Res. W-5012, and ascertained that the costs recorded in DOWC's SLRRMA are not covered in this previous resolution. The WD also reviewed the authorized revenue requirement from Res. W-5012 and verified DOWC's lost revenues resulted from the implementation of its Stage 2 WSCP and reduced water sales.

The WD finds that it is appropriate for ratepayers to pay for purchased water, purchased power, and other volume related expense and lost revenues recorded in DOWC's SLRRMA, since these costs and lost revenues resulted from DOWC's implementation of its Stage 2 WSCP to comply with Commission Res. W-4976. Accordingly, it is appropriate for ratepayers to pay for these costs and the lost revenues in addition to otherwise authorized rates.

DOWC should therefore be granted authority to transfer the amounts recorded in its SLRRMA to a balancing account for recovery. Furthermore, DOWC should be permitted to recover the \$2,895 amount in this balancing account by implementing the \$3.63 per customer surcharge on a monthly basis for three months. Recovery of the \$2,895 from lost revenues and increased operating expenses will not result in a rate of return greater than the last authorized for DOWC.

## COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day period for public review and comment.

## SAFETY

The resolution provides adequate revenue to the utility so that it can provide safe and reliable water service to its customers. DOWC is in compliance with the SWRCB's Division of Drinking Water applicable water quality standards and regulations for safe drinking water.

## COMPLIANCE

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

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## FINDINGS

1. By Advice Letter 480, filed on March 10, 2017, Del Oro Water Company (DOWC), a Class B Water Utility, seeks to recover an amount of \$2,895 in lost revenues adjusted for drought-related changes in operational costs tracked in the Statewide Lost Revenue Recovery Memorandum Account (SLRRMA) for the period of April 1, 2014 through December 31, 2016 from implementation of Tariff Rule 14.1, Stage 2 Water Shortage Contingency Plan (WSCP).
2. On January 17, 2014, Governor Edmund G. Brown Jr., proclaimed a Drought State of Emergency and directed state officials to take all necessary actions to prepare for these drought conditions. In accordance with the Governor's directives, the Commission issued Resolution W-4976 adopting drought procedures for water conservation, rationing, and service connection moratoria ("Drought Procedures") on February 27, 2014 and required that all Class A and B water utilities that had an existing Tariff Rule 14.1 to activate the rule within 30 days of the Resolution's effective date.
3. By AL 367-B, effective February 27, 2014, DOWC established a Statewide Lost Revenue Memorandum Account to track the lost revenues due to lower sales, revenues from fines, penalties, and surcharges, and drought-related changes in operational costs in all of DOWC's Districts, as a result of implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan.
4. The Statewide Lost Revenue Recovery Memorandum Account includes a provision that accumulated balances will be reduced by a 20 basis point risk reduction, and then further reduced if recovery would cause the district to earn more than its authorized rate of return. This is consistent with the methodology established in D. 90-08-055, D.91-10-042, and Standard Practice U-40 (Commission Policy).
5. By Advice Letter 480, Del Oro Water Company (DOWC) has requested authority under General Order (G.O.) 96-B and Section 454 of the Public Utilities Code to increase rates to recover the accumulated balances in its Statewide Lost Revenue Recovery Memorandum Account for its Magalia District.

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6. AL 480 was served on the service list on March 10, 2017 in accordance with the provisions of G.O. 96-B. DOWC's customers were notified of the proposed surcharge through a bill insert, to date, no protests were received.
7. DOWC tracked the lost revenues from the period of April 1, 2014 through December 31, 2016. The lost revenues were due to drought-related purchased water expenses offset and reduced sales associated with the Magalia district implementation of Tariff Rule 14.1, Stage 2 Water Shortage Contingency Plan (WSCP). Additional expenses include printing and mailing costs, to communicate with customers about the Stage 2 WSCP and the need to conserve water; and conducting a public participation meeting to inform customers about the company's Stage 2 WSCP.
8. The lost revenue over a three-year period totaled \$46,410, before subtracting \$49,073 for purchased water adjustments which were recorded in the SLRRMA. The WD reviewed DOWC's lost revenues calculation recorded in the SLRRMA and agrees with DOWC's lost revenue amount.
9. DOWC's customers reduced their water consumption by an average of 25.97% compared to the 2016 water usage over the same period.<sup>3</sup> However, relative to the adopted water sales authorized by Res. W-5012, Magalia District's last GRC, DOWC's customers reduced their water consumption by an average of 138,716 CCF or 18% for the April 1, 2014 through December 31, 2016 time period. The savings in purchased water expense is a credit against the lost revenue in DOWC's SLRRMA.
10. Additionally, according to the instructions provided in the Drought Procedures in Standard Practice (SP) U-40<sup>4</sup>, DOWC subtracted from the SRRLMA balance, the equivalent of 20-basis points (0.21%) of DOWC's most recently adopted return on equity of 10.10%, resulting in a net balance of \$36,152 recorded in the SLRRMA.
11. There were no savings in purchased power expenses because the Pacific Gas and Electric electricity rates increased in the Magalia District, exceeding the forecasted electricity charges from the previously authorized rates in Res. W-5012. Also, there were no savings in other volume related expenses; rather,

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<sup>3</sup> Based on DOWC's reported water production data to the Commission and SWRCB.

<sup>4</sup> Drought Procedures, SP U-40, paragraph 36, pg. 12.

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there was an increase because the Magalia district began implementing treatment for its groundwater supply with chlorine in 2015. This was not forecasted into the volume related expenses from the last GRC as well.

12. DOWC proposes to collect a one-time surcharge of \$10.88 at \$3.63 per month from each customer over 3 months to recover the accumulated balance of \$2,895 tracked in DOWC SLRRMA. The WD concurs with DOWC's approach for calculating the recovery amount.
13. DOWC meets the burden of the four prong criteria for recovery of costs recorded in a memorandum account.
14. DOWC should be permitted to recover the amounts in its SLRMA to a balancing account by imposing the surcharge of \$3.63 per customer per month in Tariff Schedule 1, General Metered Service for a period of 3 months.
15. This surcharge will not result in a rate of return greater than the last authorized rates for DOWC.



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### THEREFORE, IT IS ORDERED THAT:

1. Del Oro Water Company, Magalia District, is permitted to transfer the amount of \$2,895 from its Statewide Lost Revenue Recovery Memorandum Account to a balancing account for recovery over a three-month period. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
2. Del Oro Water Company, Magalia District, is permitted to recover the \$2,895 in the balancing account reflected in Ordering Paragraph 1 above by imposing a surcharge of \$3.63 per month per customer, for a period of 3months.
3. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Magalia District, to make effective the revised surcharge rate schedule submitted in Advice Letter 480, and concurrently cancel its presently effective Schedule, MD-1A, Annual General Metered Service. The effective date of the revised rate schedule shall be five days after the date of this Resolution.
4. 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 June 29, 2017; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director

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## Appendix A Del Oro Water Company

### Schedule No. MD-1A (continued)

#### ANNUAL GENERAL METERED SERVICE MAGALIA DISTRICT

#### SPECIAL CONDITIONS

7. Charge for Commitment of Future Service. By Decision No. 08-05-032, the Commission authorized the Utility to impose a surcharge (SRF Surcharge) for repayment of a State Revolving Fund Loan to fund the construction of the Regional Intertie Project authorized by that Decision. In lieu of the SRF Surcharge set forth in Schedule MD-1A, an Applicant for new service who does not wish to actually receive service at the time of application but rather seeks only a firm commitment by the utility to provide service at some dated in the future, shall be assessed a one-time charge of equal to (a) the applicable monthly SRF Surcharge for the meter size for which a service commitment is sought times (b) 240 months. An applicant assessed the charge described herein shall not be subject to the SRF surcharge or the SRF Surcharge Connection Fee set forth in Schedule MD-1A when the applicant actually begins receiving water service.

2. As authorized by the California Public Utilities Commission all bills are subject to a one-time Surcharge of \$10.88 over approximately three (3) billing cycles at \$3.63 per month to each customer's bill as approved by the CPUC in Advice Letter No. 480. This charge offsets the audited amount of \$2,895.00 due against the DOWC Statewide Lost Revenue Recovery Memorandum Account for the period April 1, 2014 through December 31, 2016.

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## DEL ORO WATER COMPANY ADVICE LETTER NO. 480 SERVICE LIST

<p><b>California Public Utilities Commission</b> Division of Ratepayer Advocates <a href="mailto:dra_water_al@cpuc.ca.gov">dra_water_al@cpuc.ca.gov</a></p> <p><b>Paradise Irrigation District</b> Attn: Kevin Phillips P.O. Box 2409 Paradise, CA 95967 1-530-877-4971 <a href="mailto:kphillips@paradiseirrigation.com">kphillips@paradiseirrigation.com</a></p> <p><b>Butte County Water and Resource Conservation</b> Ms. Vickie Newlin 308 Nelson Avenue Oroville, CA 95965 1-530-538-4343 <a href="mailto:vnewlin@buttecounty.net">vnewlin@buttecounty.net</a></p>	<p><b>Butte County, Chief Administration Officer</b> Paul Hahn 24 County Center Drive Oroville, CA 95966 1-530-538-7631 <a href="mailto:phahn@buttecounty.net">phahn@buttecounty.net</a></p> <p><b>Del Oro Water Company</b> Janice Hanna, Director of Corporate Accounting <a href="mailto:jeh@corporatecenter.us">jeh@corporatecenter.us</a></p> <p><b>Del Oro Water Company, Inc.</b> <a href="mailto:servicelist@delorowater.com">servicelist@delorowater.com</a></p> <p><b>California Public Utilities Commission</b> Division of Water and Audits 415-703-2691 <a href="mailto:water_division@cpuc.ca.gov">water_division@cpuc.ca.gov</a></p>
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