

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5176

September 13, 2018

RESOLUTION

**(RES. W-5176) RIO PLAZA WATER COMPANY. ORDER
AUTHORIZING A SURCHARGE OF \$2.77 PER MONTH PER
CUSTOMER, FOR A PERIOD OF TWELVE MONTHS, TO
RECOVER THE BALANCE OF \$17,313 RECORDED IN ITS
GROUNDWATER MANAGEMENT MEMORANDUM
ACCOUNT, TO BE PAID BY THE RATEPAYERS.**

SUMMARY

By Advice Letter (AL) 71, filed on May 2, 2018, Rio Plaza Water Company (Rio Plaza) seeks to recover \$17,313, or 4.31% of the utility's total revenue requirement, for groundwater extraction fees imposed by Fox Canyon Groundwater Management Agency (FCGMA) during 2017, as recorded in Rio Plaza's Groundwater Management Memorandum Account (GMMA). Rio Plaza requests authority to impose a \$5.50 monthly surcharge for a period of six months to recover the \$17,313 in extraction fees, the incremental increase in volume related expenses from those authorized previously by Resolution W-4661.

This Resolution authorizes a surcharge of \$2.77 per month per customer, for a period of twelve months, to recover the \$17,313, incremental volume related expenses recorded in the Rio Plaza's GMMA. The Water Division recommends a 12-month cost recovery period to reduce the rate impact on its customers, since the utility had a general rate increase of \$69,684, or 21.00% for Test Year (TY) 2018 on December 14, 2017 authorized by Resolution W-5154 which became effective on January 1, 2018.

BACKGROUND

Rio Plaza has requested authority under General Order (GO) 96-B and Section 454 of the Public Utilities (PU) Code to increase rates to recover the incremental increase in volume related expenses incurred for groundwater extraction fees imposed by FCGMA, as recorded in the utility's GMMA. Rio Plaza's present rates became effective on

January 1, 2018, pursuant to Resolution (Res.) W-5154, which authorized a general rate increase in the amount of \$69,684, or 21.00%, for TY 2018. Cost recovery of the \$17,313 in groundwater extraction fees were not part of the Rio Plaza's general rate increase for TY 2018 because the utility was not invoiced by FCGMA until January 5, 2018, after the rate increase had been authorized.

Rio Plaza is a Class C water utility with 520 service connections.¹ Rio Plaza's service area is located in the area known as Rio Plaza Subdivision in the vicinity of El Rio, approximately three miles north of Oxnard, in Ventura County. The median household income for El Rio is \$63,769.²

Rio Plaza established its GMMA on January 27, 2006 by AL No. 42-W, per the authority provided by Commission Res. W-4467, dated April 22, 2004.

Rio Plaza incurred \$17,313 in extraction fees from FCGMA due to exceeding its 2017 allocated amount of water by 13.166 Acre-Feet (AF). In 2017, Rio Plaza's water extraction allocation was 224.256 AF, and during 2017, the utility extracted 237.422 AF to meet its customers' water usage demand. Consequently, Rio Plaza was charged additional extraction fees in the amount of \$1,315 per AF above its allocated amount, which amounted to the \$17,313 and was recorded in utility's GMMA. Rio Plaza now seeks to recover the GMMA balance of \$17,313 by imposing a surcharge of \$5.50 per month per customer, for a period of six months.

NOTICE AND PROTESTS

AL 71-W was served on May 2, 2018, in accordance with the provisions of GO 96-B. A customer notice of the proposed rate increase was published on June 15, 2018 in the Ventura County Star, a newspaper of general circulation in Ventura County.

No protests were received on Rio Plaza's AL 71-W filing.

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1. As defined in General Order 96-B Water Industry Rules Section 1.2, Class B, C, and D utilities serve 2,001 through 10,000, 501 through 2,000, and less than 500 service connections, respectively.
 2. <http://www.city-data.com/city/El-Rio-California.html>

DISCUSSION

By AL 71-W, filed on May 2, 2018, Rio Plaza seeks to recover the increased operational costs incurred for groundwater extraction fees imposed by FCGMA, as recorded in the utility's GMMA. The increase requested herein is for recovering through a surcharge, on a dollar-for-dollar basis, the increased operational costs which Rio Plaza recorded and tracked in its GMMA.

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

- 1) it acted prudently when it incurred these costs;
- 2) the utility paid reasonable amounts for these costs;
- 3) the memorandum account costs are not recovered by other authorized rates;
and
- 4) it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates.

The Water Division (WD) finds that Rio Plaza acted prudently in incurring the incremental volume related expenses recorded in its GMMA. Based on the WD's analysis of Rio Plaza's customer water usage data, reported in the company's annual reports from 2013 through 2017, customers' water consumption in 2017 remained at approximately 12.00% below 2013 water consumption. Rio Plaza's customers achieved the highest level of water conservation during 2015 when they reduced their water usage by approximately 20.00%. The water usage data also shows an increase in water use in 2017 of approximately 11.00% over 2015 and 2016 water usage, which could partially be attributed to the Governor's end of the emergency drought declaration in 2017.³ However, Rio Plaza continues to monitor its customers' water usage and encourages its customers to conserve and use water more efficiently by sending them quarterly water conservation updates and water conservation reminders. Rio Plaza has also implemented tiered metered rates with a three-tier rate structure to further encourage water conservation. Should water consumption continue to increase or remain above the current FCGMA's allocated amount, the WD recommends

3. Governor's April 7, 2017 Executive Order B-40-17 lifting the emergency drought conditions in California.

WD

considering an adjustment to the price charged and usage amounts under the current tiered rates in the company's next general rate case, to further encourage water conservation.⁴ Accordingly, the WD finds that Rio Plaza acted prudently since the additional ground water extraction fees incurred by Rio Plaza were beyond the utility's control and resulted from extracting water beyond its 2017 allotted amount, in order to meet its customers' water usage demand.

With respect to the 2nd standard, the WD reviewed the incremental volume related expenses recorded in Rio Plaza's GMMA and found them to be prudent and reasonable since it is a set fee that FCGMA charged the company per AF for exceeding its 2017 groundwater extraction allocation amount.

With respect to the 3rd standard discussed above, the WD reviewed the applicable General Rate Case (GRC) for volume related expenses for 2017, authorized by Res. W-4661 on September 20, 2007, and ascertained that the incremental increase in volume related expenses were not authorized in rates. Therefore, Rio Plaza did not receive revenues for these incremental incurred expenses accrued in its GMMA. Accordingly, recovering these expenses now would not amount to double recovery and is reasonable.

The WD finds it appropriate for ratepayers to pay for these costs, since groundwater extraction fees were incurred to provide ratepayers with water service by ensuring that the utility had reliable and sufficient water supply to meet its customers' water usage demand. Accordingly, it is appropriate for ratepayers to pay for these incremental volume related expenses in addition to otherwise authorized rates and, therefore, Rio Plaza meets the 4th standard discussed above.

Since Rio Plaza meets each of the standards as discussed above, the WD finds it reasonable to allow Rio Plaza to recover the amount of \$17,313 from its GMMA. Rio Plaza should be permitted to transfer the \$17,313 in its GMMA to a balancing account for recovery. The WD recommends that cost recovery of the \$17,313 be done over a period of twelve months, to reduce the rate impact on its customers, since the utility had a general rate increase of \$69,684, or 21.00%, for TY 2018 which became effective on January 1, 2018. Cost recovery of the \$17,313 will result in a surcharge of \$2.77 per

4. The WD notes that pending before the Commission is Joint Application (A.) 17-12-006 filed by California-American Water Co. (Cal-Am) and Rio Plaza Water Co. (Rio Plaza) for sale of all shares of Rio Plaza to Cal-Am.

month per customer. This surcharge will not result in a rate of return greater than the last authorized for Rio Plaza. Rio Plaza is in agreement with the WD's 12-month cost recovery period.

Affordability of Proposed Rates

At present rates with the proposed surcharge, the monthly bill for an average customer with a ¾-inch meter and using 16 CCF (one CCF is equal to one hundred cubic feet or 748.1 gallons) would increase from \$66.11 to \$68.88 or 4.19%. A monthly average bill of \$68.88 is 1.30% of the median household income of \$63,769 for the zip code that includes Rio Plaza's service area.

It should be noted that no affordability criteria has been developed and adopted in any Commission Decision or legislation. Instead, the discussion regarding affordability is presented to indicate to the Commission the relationship between the proposed rates and local incomes.

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 revenues to the utility so that it can provide safe and reliable water service to its customers. The water served by the utility meets all applicable water quality standards set forth by the State Water Resources Control Board's Division of Drinking Water.

COMPLIANCE

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

FINDINGS

1. By Advice Letter (AL) 71-W, filed on May 2, 2018, Rio Plaza seeks to recover the \$17,313, for 2017 groundwater extraction fees imposed by Fox Canyon Ground Management Agency (FCGMA) recorded in Rio Plaza's Groundwater Management Memorandum Account (GMMA) in 2017.
2. Rio Plaza requests authority to impose a \$5.50 monthly surcharge for a period of six months to recover the \$17,313 in extraction fees, the incremental increase in volume related expenses from those authorized by Resolution (Res.) W-4661.
3. Rio Plaza established its GMMA on January 27, 2006 by AL No. 42-W, per the authority provided by Commission Res. W-4467, dated April 22, 2004.
4. Rio Plaza incurred \$17,313 in extraction fees from FCGMA due to exceeding its 2017 allocated amount water by 13.166 Acre-Feet (AF) and was charged additional extraction fees in the amount of \$1,315 per AF above its allocated amount of 224.256 AF to meet its customers' water usage demand.
5. The expenses recorded in Rio Plaza's GMMA in the amount of \$17,313 are prudent, reasonable, and not covered by other authorized rates.
6. It is appropriate for Rio Plaza's ratepayers to pay for these costs in addition to otherwise authorized rates, since groundwater extraction fees were incurred to provide ratepayers with water service by ensuring that the utility had reliable and sufficient water supply to meet its customers' water usage demand.
7. Rio Plaza could not have reasonably anticipated groundwater extraction fees imposed by FCGMA since they are not actualized until the end of the year based on total annual water consumption for the year.
8. AL 71-W was served on May 2, 2018, in accordance with the provisions of GO 96-B. A notice of the proposed rate increase was published on June 15, 2018 in the Ventura County Star, a newspaper of general circulation in Ventura County. No protests were received.

9. Rio Plaza should be permitted to transfer the amounts recorded in its GMMA to a balancing account for recovery.
10. To reduce the rate impact on Rio Plaza's customers, the Water Division recommends a 12-month cost recovery period, since the utility had a general rate increase of \$69,684, or 21.00%, for TY 2018, which became effective on January 1, 2018.
11. Rio Plaza should be permitted to recover the amount in the balancing account by imposing a surcharge of \$ 2.77 per month per customer, for a period of twelve months.
12. This surcharge will not result in a rate of return greater than the last authorized for Rio Plaza.

THEREFORE, IT IS ORDERED THAT:

1. Rio Plaza Water Company is authorized to transfer \$17,313 in its Groundwater Management Memorandum Account to a balancing account for recovery over a period of twelve months. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
2. Rio Plaza Water Company is permitted to recover the \$17,313 in the balancing account reflected in Ordering Paragraph 1 above by imposing a surcharge of \$2.77 per month per customer, for a period of twelve months.
3. Rio Plaza Water Company shall track the revenue from the \$2.77 surcharge per month per customer, for a period of twelve months, reflected in Ordering Paragraph 1 above in a balancing account and account for any over or under collected revenues in its next General Rate Case.
4. Authority is granted under Public Utilities Code Section 454 to Rio Plaza Water Company, to file a supplemental advice letter with the revised surcharge rate schedules and concurrently cancel its presently effective Schedules No. 1 General Metered Service. The effective date of the revised rate schedules shall be five days after the date of filing.

**Resolution W-5176
WD**

September 13, 2018

**RIO PLAZA WATER COMPANY
ADVICE LETTER 71-W
SERVICE LIST**

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