DWA/RSK/BMD/JB5/TKM/j1j

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4928
August 2, 2012

R E S O L U T I O N

(RES. W-4928), GREAT OAKS WATER COMPANY (GREAT OAKS). ORDER APPROVING REQUEST TO IMPLEMENT A SURCHARGE TO RECOVER $139,261.26 OF THE BALANCE IN THE CERTIFIED PUBLIC ACCOUNTANT AUDIT COST MEMORANDUM ACCOUNT (ACMA).

SUMMARY

This resolution grants Great Oaks the authority to implement a surcharge of $0.03 per hundred cubic feet (Ccf) on the quantity charge of its active service connections for 12 months to recover the balance of $139,261.26 as of January 3, 2012, in the Certified Public Accountant Audit Cost Memorandum Account (ACMA). The balance in the ACMA is equivalent to 1.08% of the total revenue requirement.

Great Oaks filed Advice Letter (AL) 225-W on April 13, 2012, and supplemented it by AL 225-W-A on July 10, 2012, with a Tier 3 designation to recover the balance in the ACMA.

BACKGROUND

Great Oaks was authorized by the 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.

[1] D.10-12-057, Ordering Paragraph 5.

Great Oaks filed AL 211-W, a Tier 1 advice letter, to establish the ACMA to track costs directly associated with the Commission-ordered audits.[2] DWA staff approved AL 211-W that added the ACMA to Great Oaks' tariffs.

Great Oaks complied with the specific procedures required to select the CPA, including preapproval through a Tier 2 advice letter filing.[3] The DWA approved the selection of Armanino McKenna LLP as the CPA to perform the 2009 and 2010 audits through Great Oaks Advice Letter 212-W. Great Oaks submitted the audit reports for 2009 and 2010 to the Commission on January 3, 2012.[4]

Great Oaks submitted AL 225-W with a Tier 3 designation to recover the balance in the ACMA. DWA staff determined that AL 225-W was correctly designated as Tier 3 based on G.O. 96-B, Water Industry Rule 7.3.3(7).

NOTICE, SERVICE, AND PROTESTS

On April 23, 2012, Great Oaks published notice of AL 225-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 the DWA.

On April 13, 2012, Great Oaks served AL 225-W, in accordance with General Order 96-B, Water Industry Rule 4.1 and General Rule 7.2, on adjacent utilities, parties of record in A.09-05-007, and persons on its general advice letter service list. No protests were received to AL 225-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

[2] D.10-12-057, Ordering Paragraph 9 authorized Great Oaks to establish the ACMA.

[3] D.10-12-057, Ordering Paragraphs 6 and 7.

[4] Great Oaks requested and received from the Commission's Executive Director two extensions for filing the 2009 and 2010 audit reports because of delays by the auditor in completing these reports.

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.[5]

Great Oaks submitted invoices for each of the expenses booked to the ACMA. DWA found that all the expenses were reasonable and related to the authorized services of the CPA. We have reviewed this information and concur with DWA's finding. 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 2009 and 2010 audits as determined by DWA's review of the expense invoices booked to the ACMA.

The cost for 2009 and 2010 audits was separately booked to the ACMA. The cost of the audits has not been previously recovered by other authorized rates. Audited financial statements provide greater assurance that Great Oaks' reported earnings and financial condition are accurate and complete. This forms the basis for establishing just and reasonable rates. As such, we find it appropriate for ratepayers to pay for the cost of the 2009 and 2010 audits in addition to otherwise authorized rates. Based on its review of AL 225-W, DWA recommends full recovery of the expenses booked in the ACMA. We concur.

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

AL 225-W requests authorization to impose a surcharge of $0.03/Ccf on the quantity charge of its active service connections for a twelve-month period, based upon billing dates, on a rolling basis. The $139,261.26 balance being amortized represents 1.08% of Great Oaks's most recent authorized revenue requirement of $12,944,989.00. For the average single-family customer with a 5/8"x3/4" meter using 15 Ccf of water per month, the surcharge will increase a bi-monthly bill by $0.93 (1.10%) from $84.81 to $85.77.

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.

[5] Res. W-4824, Ordering Paragraph 5.

FINDINGS AND CONCLUSIONS

1. Great Oaks requests approval to recover the balance of $139,261.26, as of January 3, 2012, in its Certified Public Accountant Audit Cost Memorandum Account (ACMA) pursuant to Standard Practice U-27-W.
2. Great Oaks filed Advice Letter 225-W with a Tier 3 designation.
3. On April 13, 2012, Great Oaks served AL 225-W on adjacent utilities, parties of record in A.09-05-007, and persons on its general advice letter service list.
4. On April 23, 2012, Great Oaks provided customer notice of the surcharge by publishing notice of the proposed increase in a local newspaper.
5. Great Oaks has a balance in the ACMA of $139,261.26 as of January 3, 2012.
6. The Great Oaks balance of $139,261.26 represents 1.08% of the most currently authorized operating revenues of $12,944,989 at the time Advice Letter 225-W was filed.
7. 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.
8. Great Oaks meets the requirements of Standard Practice U-27-W for a surcharge to amortize the balance in the ACMA over one year.
9. Great Oaks has requested a surcharge of $0.03 per hundred cubic feet for 12 months to amortize the balance in the ACMA.
10. Great Oaks provided documentation that the only costs it booked in the ACMA are costs directly associated with audits authorized by the Commission.
11. The Division of Water and Audits finds that Great Oaks acted prudently when it incurred costs booked to the ACMA.
12. The Division of Water and Audits finds that the costs booked in the ACMA are reasonable.
13. The costs requested in the ACMA are not covered by other authorized rates.
14. As a matter of policy, it is appropriate for ratepayers to pay for services directly related to audits authorized by the Commission.
15. The Division of Water and Audits recommends that the balance of $139,261.26 in the ACMA for Great Oaks should be approved for recovery.
16. The Division of Water and Audits determined that a surcharge of $0.03 per hundred cubic feet for a 12-month period should amortize $139,261.26 and should be approved.

17. This Resolution concerns an uncontested matter that grants the relief requested.

18. This Resolution was not circulated for public comment.

THEREFORE, IT IS ORDERED THAT:

1. Great Oaks Water Company's tariff sheets filed with Supplemental Advice Letter 225-W-A and attached to this Resolution that amortize $139,261.26 in the Certified Public Accountant Audit Cost Memorandum Account through a 12-month surcharge of $0.03 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 Water Company is authorized to transfer $139.261.26 from its Certified Public Accountant Audit Cost Memorandum Account (to a balancing account 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 Water Company shall account for any over or under collections in this balancing account in its next general rate case.
3. 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 August 2, 2012; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

GREAT OAKS WATER COMPANY
San Jose, California

Revised Cal. P.U.C. Sheet No. 696-W
Canceling Revised Cal. P.U.C. Sheet No. 692-W

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 offset the higher Pump Tax imposed by the Santa Clara Valley Water District, effective July 1, 2011, a surcharge of $0.101 per 100 cu.ft. will be added to the Quantity Rate.
3. To true-up interim rates as authorized in D.10-11-034, D.11-02-003, and D.10-12-057, a surcharge of $0.0526 per 100 cu.ft. will be added to the quantity rate for each customer for a twelve-month period, effective November 1, 2011.
4. To amortize the balance in the Monterey-style Water Revenue Adjustment Mechanism Account, a surcharge of $0.1013 per 100 cu.ft. will be added to the quantity rate for Single-Family Residential Customers for a rolling twelve-month period beginning May 13, 2012.
5. To amortize the balances in authorized balancing accounts, pursuant to Advice Letter 224-W, a surcharge of $0.0253 per 100 cu.ft. will be added to the quantity rate for each customer for a rolling twelve-month period beginning May 13, 2012.
6. To offset the higher Pump Tax imposed by the Santa Clara Valley Water District, effective July 1, 2012, a surcharge of $0.1087 per 100 cu.ft. will be added to the quantity rate for all General Metered Service customers.
7. 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. (N) | (N)

(To be inserted by utility) *Issued by* (To be inserted by Cal. P.U.C.)

Advice Letter No. 225-W-A Timothy S. Guster (NAME) Date Filed
Decision No D.10-12-057 General Counsel (TITLE) Effective
Resolution No.

GREAT OAKS WATER COMPANY
San Jose, California

Revised__	Cal. P.U.C. Sheet No.	697-W
Canceling Revised_	Cal. P.U.C. Sheet No.	693-W

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 offset the higher Pump Tax from the Santa Clara Valley Water District, effective July 1, 2011, a surcharge of $0.001 per 100 cu.ft. will be added to the Quantity Rate.
5. To true-up interim rates as authorized in D.10-11-034, D.11-02-003, and D.10-12-057, a surcharge of $0.0526 per 100 cu.ft. will be added to the quantity rate for each customer for a twelve-month period, effective November 1, 2011.
6. To amortize the balances in authorized balancing accounts, pursuant to Advice Letter 224-W, a surcharge of $0.0253 per 100 cu.ft. will be added to the quantity rate for each customer for a rolling twelve-month period beginning May 13, 2012.
7. To offset the higher Pump Tax imposed by the Santa Clara Valley Water District, effective July 1, 2012, a surcharge of $0.1087 per 100 cu.ft. will be added to the quantity rate for each customer.
8. 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. (N) | (N)

(To be inserted by utility) *Issued by* (To be inserted by Cal. P.U.C.)

Advice Letter No. 225-W-A Timothy S. Guster (NAME) Date Filed

Decision No. D.10-12-057 General Counsel (TITLE) Effective

Resolution No.

GREAT OAKS WATER COMPANY Revised Cal. P.U.C. Sheet No. 698-W
San Jose, California Canceling Revised Cal. P.U.C. Sheet No. 694-W

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 offset the higher Pump Tax from the Santa Clara Valley Water District, effective July 1, 2011, a surcharge of $0.101 per 100 cu.ft. will be added to the Quantity Rate.
6. To true-up interim rates as authorized in D.10-11-034, D.11-02-003, and D.10-12-057, a surcharge of $0.0526 per 100 cu.ft. will be added to the quantity rate for each customer for a twelve-month period, effective November 1, 2011.
7. To amortize the balances in authorized balancing accounts, pursuant to Advice Letter 224-W, a surcharge of $0.0253 per 100 cu.ft. will be added to the quantity rate for each customer for a rolling twelve-month period beginning May 13, 2012.
8. To offset the higher Pump Tax imposed by the Santa Clara Valley Water District, effective July 1, 2012, a surcharge of $0.1087 per 100 cu.ft. will be added to the quantity rate for each customer.
9. 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. (N) | (N)

(To be inserted by utility) *Issued by* (To be inserted by Cal. P.U.C.)

Advice Letter No. 225-W-A Timothy S. Guster (NAME) Date Filed
Decision No. D.10-12-057 General Counsel (TITLE) Effective
Resolution No.