

CALIFORNIA PUBLIC UTILITIES COMMISSION
Water Advisory Branch

STANDARD PRACTICE FOR
COLLECTING AND PROCESSING
FEES AND CHARGES
UNDER GENERAL ORDER 96-B

Standard Practice U-28-W

SAN FRANCISCO, CALIFORNIA
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STANDARD PRACTICE FOR COLLECTING AND PROCESSING USER, CONNECTION
AND FACILITIES FEES AND LATE PAYMENT CHARGES UNDER
GENERAL ORDER 96-B

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A--PURPOSE AND SCOPE

1. The purpose of this standard practice is to provide guidance to utilities and Water Division staff on the collection and processing of various fees a utility is allowed or required to charge its customers.
2. Fees and charges are used for various purposes.
 - a. User fees for water and sewer system utilities were approved by the legislature in 1982. The Commission calculated the initial fee and imposed it by Commission resolution M-4722, November 24, 1982 to be effective January 1, 1983. In 1983 the legislature extended this funding source to all regulated utilities, effective on July 1, 1983. Sections 401 through 410 and Section 431 of the Public Utilities Code describe this fee. The purpose of this fee was to remove the Commission from general fund funding.
 - b. Late Payment Charges are imposed on customers who are late in paying their bills. The purpose is to change behavior and induce more timely payment¹. Yermo Water Company (Yermo) was the first water utility to receive authority from the Commission to charge a late fee of \$5.00 on delinquent bills in 1993². This provision was instituted as part of its general rate case due to significant delinquent payment problems for Yermo. In 1996, Cobb Mountain Water Company (CMWC), with 17% of accounts delinquent, declined a staff proposed \$5.00 late charge in favor of a pilot study for late charges of 1.5% of the overdue bill with a minimum charge of \$1.00³. This was due to the unique nature of the rate structure of CMWC, which serves a resort area with few year-round residents. After a one-year pilot study, CMWC determined that the late fee was effective in reducing delinquent payments and the late charge was made permanent⁴. Later, Havasu Water Company received the same treatment⁵. Other water utilities

¹ Resolution number 11, March 22, 1935, of the Railroad Commission of the State of California authorized Sierra Water Service Company to offer a discount of fifty cents to customers who paid their bill by the 20th of the month.

² Resolution W-3812, November 23, 1993, Finding 10.

³ Resolution W-3875, November 7, 1994

⁴ Advice letter 23, June 18, 1996, effective June 24, 1996

⁵ Resolution W-3940, September 7, 1995

criticized this late fee structure because it only addressed the carrying cost of late payments and not the additional costs incurred. They pointed out that these costs would be paid by other customers of the water company. Also the 1.5% late charge with a minimum of \$1.00 effectively put in a \$1.00 late charge since the water bill would have to exceed \$66.67 for the \$1.00 minimum charge to be exceeded. At the California Water Association meeting in October, 1996, the small water utilities specifically requested a different late charge and cited the additional costs involved in justifying a different late charge. The Branch requested some cost studies for the late charge, and, on January 27, 1997, Ponderosa Water Company (PWC) sent cost calculations for additional costs due to late payments for staff review. PWC's calculations justified a \$5.00 late charge. The costs incurred were typical of the costs incurred by a small water utility for labor and materials involved notification and collection of the delinquent account and the charge was approved by Resolution W-4035, April 9, 1997.

- c. Returned Check Charge. Resolution W-2638, May 20, 1980, revised Rule 9 to establish a \$5.00 charge for bad checks or electronic fund transfer procedures not honored. At that time, the Commission found that the additional cost to the utility for processing returned checks varied and the \$5.00 charge was in the mid range. Since that time banks fees increased, writing a bad check was made illegal⁶, and the costs of processing and collection increased. The \$5.00 charge was no longer sufficient to cover the costs. At the California Water Association meeting in 1997, many water utilities requested a higher returned check charge and cited increased charges by banks and the additional costs involved in reversing bookkeeping entries, collecting the check and reentering the amount. Part of the higher cost was due to the practice of customers paying with a bad check to avoid the disconnection of water service for non-payment or to avoid the charge for reconnection. In its letter of January 24, 1997 PWC sent cost calculations for additional costs due to processing and collecting which justified a \$20.00 returned check charge as representative of the costs incurred by a small water utility. Resolution W-4035, April 9, 1997, allowed all Class C and D water utilities to file to assess this charge.
- d. Reconnection charges (see Tariff Rule 11) represent the cost to the utility of performing disconnection and reconnection and keep other ratepayers from paying costs caused by one customer. Rule 11 allows water utilities to charge for reconnecting water service that has been disconnected due to non-payment or violation of rules. General Order 103 states that utilities may charge \$10.00 for reconnection of service during regular working hours and \$15.00 for reconnection of service at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours. This fee has been in effect for a long time while labor and processing costs have increased. Class A and B water utilities have justified and established higher reconnection charges in conjunction with general rate cases; however, small utilities do not

⁶ Under California Civil Code, Chapter 522, Section 1719, the maker of a bad check may be liable for three times the amount of the check or \$100.00, whichever is greater, plus the face value of the check and court costs.

have general rate case proceedings as often and do not have the time or resources to devote to calculation of costs of reconnection. At the California Water Association meeting, small water utilities requested a higher reconnection charge and cited increased costs as justification. PWC provided a cost basis for a charge of \$25.00 during regular working hours and for \$40.00 for other than regular working hours. The Water Division found that these costs were representative of those for small utilities. Because the majority of these costs are associated with the travel and preparation for disconnection, not the disconnection itself, the division recommended that the charge be levied even when the customer attempts to pay the overdue bill at the time the disconnection is being attempted.

- e. Deposits may be required of new customers, until those customers have established credit with the utility.
- f. Facilities fees were originally approved for smaller water companies and smaller districts of large water companies by Decision (D.) 91-04-068, April 24, 1991, which stated (Ordering Paragraph 2):

“2. A Class C or Class D utility, or a Class A or Class B utility district or subsidiary serving 2,000 or fewer connections, may accept from individual customers amounts in contribution as a facilities fee pursuant to tariffs approved by the Commission.”

This order was supplemented by a settlement adopted by D. 93-11-066, November 23, 1993, which required all monies collected to be kept in a separate bank account and used only for infrastructure replacement. The settlement also proclaimed that (Section II. A. 1):

“The Stipulating Parties agree that small water companies may submit requests to Water Branch for establishment of facilities fees as authorized by D. 91-04-068, so long as such facilities fees are based on a need for additional operating facilities resulting from actual or projected customer growth. Such requests shall be supported by either a formula method which reflects actual or projected customer growth or by a method utilizing customer growth projection and estimates of need additional operating facilities and the costs thereof which are related to such projections.”

On September 3, 1998 the Commission approved resolution No. W-4110 which allowed Sierra City Water Works, Inc. and all other Class D water utilities to file to charge facilities fees to fund replacement of plant. It established generic tariffs for facilities fees ranging from \$2,000 for 5/8 inch by 3/4 inch metered water customers to \$16,000 for customers requiring a 2 inch meter (see Appendix A).

- g. Connection charges allow a utility to recover the actual cost of hooking a new customer into an already existing distribution main. This fee covers the costs of installing new service connections, including service pipe, meter box and meter, and

labor. These fees are subject to gross-up due to their taxability as revenues. In Decision (D.) 90-20-020 in Southern California Water Company's general rate case application (A.) 88-05-021, the Commission authorized the utility to charge a connection/facilities fee on an experimental basis in its Desert District. Because this fee was a major deviation to General Order 103, the Commission opened Order Instituting Rulemaking (R.) 90-07-004, July 6, 1990. In the final decision in that proceeding (D.91-04-068, April 21, 1991) the Commission adopted a Connection fee Data Form (Appendix B) that was to be added to the "Form" section of their tariffs by smaller water companies that want to charge the fee. This form is filled in and presented to the customer at the time the customer requests connection. The customer must be told that he or she can complain about the fee to the Commission, and that the customer has the option of retaining a qualified contractor to install the connection, subject to inspection by the utility.

h. Advances and Contributions (tariff Rule 15) Advance contracts are provided to developers

B—PROCEDURE

3. User Fees The Commission determines the amount of the user fee by management resolution. The latest management resolution concerning user fees was M-4786, July 16, 1997. It set the charge for water and sewer system utilities at 1.4% of revenues. Water and sewer system utilities pay user fees that are proportional to their gross intrastate revenues⁷. Revenues means all money collected for the furnishing of utility service, including principal and interest surcharge on loans (including Drinking Water State Revolving Fund (DWSRF) and Safe Drinking Water Bond Act (SDWBA)⁸ loans. This is because the facilities constructed by DWSRF and SDWBA loans would have resulted in a return if they had been built by the utility and included in rate base. That return revenue would be subject to user fees, so the loan revenues should be subject to user fees. It does not include utility taxes or other revenues that are passed through to governmental agencies. This fee is usually referred to in the special conditions on the rate schedules and described on a separate rate Schedule Number UF.

4. Late Payment Charge Late payment charges may be imposed when the customer doesn't pay the bill within 20 days of it being mailed (see Public Utilities Code Section 779.1). The charge is described on a separate schedule LC (see Appendix C). Normally, the utility allows an amount of time in excess of 19 days before the charge is imposed, for example, for monthly billers, if the last month's bill has not been paid by the time the next month's bill is sent, the charge is imposed on the next month's bill. Resolution W-4035, April 9, 1997 authorizes Ponderosa Water Company and all Class C and D water utilities to charge a late payment charge of \$5.00 after they file an advice letter and tariff describing the charge (see Appendix D). These funds should be booked as Other Utility Revenues.

⁷ Public Utilities Code Section 432 (c) (4)

⁸ Letter from Milton J. DeBarr to Class B, C and D Water Companies, September 5, 1986

5. Returned Check Charge Resolution W-4035 authorizes Class C and D water utilities to charge \$20.00 for processing a returned check. These funds should be booked as Other Utility Revenues.

6. Reconnection Charge Tariff Rule 11 allows water utilities to charge for reconnecting water service that has been disconnected due to nonpayment or violation of rules. Resolution W-4035 authorizes Class C and D water utilities to file an advice letter to charge a reconnection fee of \$25.00 during regular working hours and \$40.00 for other than regular working hours. Because the majority of these costs are associated with the travel and preparation for reconnection, not the reconnection itself, this charge should also be levied even when the customer attempts to pay the overdue bill at the time the disconnection is being done, in an attempt to avoid the reconnection fee. Other amounts may be used if justified. The reconnection charge should be based on an analysis of the average time required to perform these functions. Reconnection charges should be booked as other utility revenue.

7. Facilities fees are available for Class A districts that serve less than 2000 service connections, and B and C and D utilities and may be based on any reasonable analysis as developed in the GRC⁹. Class A water companies have to show that their need for a facilities fee outweighs the ratemaking principle that shareholders, rather than ratepayers, should bear the cost of plant facilities¹⁰. Eligible utilities may file by advice letter to institute a facilities fee schedule F. All fee collected must be kept in a segregated bank account and credited to contributions in aid of construction (CIAC) at the time the fees are spent for additional plant.

8. The Commission addressed facilities fees for Class D utilities generically in Resolution No. W-4110, September 3, 1998, for Sierra City Water Works. It authorized all Class D water utilities to file an advice letter to make effective Schedule F (Appendix A), or to charge lower rates based on the same proportional meter size. Within five days of receipt, the utilities must deposit these fees in a separate interest bearing bank account and the bank must inform the PUC when monies are deposited. The funds are to be booked as CIAC.

8. Deposits Section 779.5 of the Public utilities code requires that deposits be based solely on the credit worthiness of the applicant. Deposits (see Tariff Rule No. 7) are required when a new customer requests service, and are refunded, with interest, after the customer has received twelve months of service, if all bills have been paid on time during that time (see Tariff Rule No. 6). The standard deposit is two times the average bill for metered customers and one bill for flat rate customers. This is because metered customers are billed after the service has been received and flat rate customers are billed prior to the service being received.

⁹ Authority to charge facilities fees was established by Commission Decision (D.)92-03-093, March 31, 1992, Ordering Paragraph 10. which ordered workshops within 75 days to discuss, among other items, allowing Class C and D utilities to charge facilities fees. As a result of the workshop, staff issued suggested procedures that required the utility to develop a list of expected new facilities' costs and divide by the number of expected new customers. This, or any other method, was to be requested during a General Rate Case and adopted individually.

¹⁰ 39 CPUC2d at 602

9. Plant Replacement Fee. Resolution W-4035, September 7 2000, allowed Curtis Water company, which was being operated by a court-appointed receiver, to collect a monthly plant replacement fee of \$14.00 per customer per month to help defray the cost of rebuilding the system and aid in the interconnection of the system with an adjacent water utility. The fees were to be deposited within five days in a separate bank account paying interest. The fees were booked as Contributions-in-Aid-of- Construction and the utility was to report in its annual report to the Commission, the fees collected, interest, and balance in the account. Withdrawal of funds from the account are subject to approval granted by a further resolution of the Commission and Curtis Water Company was authorized to file an advice letter to request such withdrawal.

APPENDIX A

Schedule F

FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises due to change in use.

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 | \$ 2,000 |
| For 3/4-inch meter | 3,000 |
| For 1-inch meter | 5,000 |
| For 1 1/2-inch meter | 10,000 |
| For 2-inch meter | 16,000 |

SPECIAL CONDITIONS

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. These fees are not subject to the Public Utility Commission Reimbursement Fee surcharge in schedule UF.

APPENDIX B

(Name of Water Company)

Connection Fee Data Form for Service to _____
(Name of Customer)

_____, _____
(Address) (Telephone)

I. Local Government Permits and Fees

| <u>Line</u> | <u>Name of Agency</u> | <u>Name of Fee</u> | <u>Cost</u> |
|-------------|-------------------------------|--------------------|-------------|
| 1 | _____ | _____ | \$ _____ |
| 2 | _____ | _____ | _____ |
| 3 | _____ | _____ | _____ |
| 4 | _____ | _____ | _____ |
| 5 | Total (Add lines 1 through 4) | | \$ _____ |

II. Materials

A. Service Pipe

6 Type (e.g., copper) _____

7 Unit cost = \$ _____ per foot of length

8 Length of service pipe = _____ feet
(Use typical connection in your service area)

9 Service

Pipe Cost = Unit cost (Line 7) x Length (Line 8)

Pipe Cost = \$ _____ /ft. x _____ ft. = \$ _____

APPENDIX B

II. Materials (continued)

B. Other than Service Pipe

| | | |
|-------------|---|----------|
| <u>Line</u> | | |
| 10 | Saddle tap | \$ _____ |
| 11 | Valve (corp stop) | _____ |
| 12 | Valve (meter stop) | _____ |
| 13 | Cast concrete box | _____ |
| 14 | Meter | _____ |
| | Other (describe) | _____ |
| 15 | _____ | _____ |
| 16 | _____ | _____ |
| 17 | Subtotal (Add Lines 10 through 16) | _____ |
| 18 | Miscellaneous allowance (5% of Line 17) | _____ |
| 19 | Total (Add Lines 17 and 18) | \$ _____ |

III. Installation

A. Tapping

Labor for tapping main, installing valves, setting meter and meter box (not applicable to flat rate service), and all other hardware work regardless of the length of service pipe.

Tapping cost = Avg. time for tapping x hourly rate

For metered service:

20 Tapping cost = _____ hr. x \$ _____ /hr. = \$ _____

For flat-rate service:

21 Tapping cost = _____ hr. x \$ _____ /hr. = \$ _____

B. Earth Work

Labor and Equipment for trenching and compaction of backfill.

22 Length of trench = _____ feet
(Use typical connection in your service area)

APPENDIX B

III. Installation (continued)

B. Earth Work (continued)

1. Labor

Cost = Avg time x hourly rate

Line

23 Operator cost = _____ hr. x \$ _____/hr. = \$ _____

24 Laborer cost = _____ hr. x \$ _____/hr. = \$ _____

25 _____ = _____ hr. x \$ _____/hr. = \$ _____
(other)

26 Total Labor (Add Lines 23 through 25) \$ _____

2. Equipment

Cost = Avg. time x hourly rate

27 Backhoe cost = _____ hr. x \$ _____/hr. = \$ _____

28 Compactor cost = _____ hr. x \$ _____/hr. = \$ _____

29 _____ = _____ hr. x \$ _____/hr. = \$ _____
(other)

30 _____ = _____ hr. x \$ _____/hr. = \$ _____
(other)

31 Total Equipment (Add Lines 27 thru 30) \$ _____

C. Pavement replacement (including base)

32 Pavement type (e.g., asphalt concrete) _____

33 Unit cost = \$ _____ /ft.

34 Length of pavement = _____ feet
(Use typical connection in your service area)

35 Cost = Unit cost (Line 33) x Avg. Length (Line 34)

36 Pavement Cost = \$ _____ / ft. x _____ = \$ _____
(Line 33) (Line 34)

IV. Total Cost of Service Connection

Cost = Local Gov't Fees + Materials + Installation

Local Gov't Fees + (Service Pipe = Other than Service Pipe)
+ (Tapping + Labor for Earth Work + Equipment for Earth Work
+ Pavement Replacement)

APPENDIX B

IV. Total Cost of Service Connection (continued)

Cost = (continued)

Line

$$\begin{aligned} 37 &= \frac{\text{_____}}{\text{(Line 5)}} + \left(\frac{\text{_____}}{\text{(Line 9)}} + \frac{\text{_____}}{\text{(Line 19)}} \right) + \\ &\quad \left(\frac{\text{_____}}{\text{(Line 20 or 21)}} + \frac{\text{_____}}{\text{(Line 26)}} + \frac{\text{_____}}{\text{(Line 31)}} + \frac{\text{_____}}{\text{(Line 36)}} \right) \\ 38 &= \$ \text{_____} \text{ (rounded to nearest \$10)} \end{aligned}$$

V. Federal Income Tax Gross-up

Connection Fee = Total Cost + (Total Cost) x (Tax Rate)

$$\begin{aligned} 39 &= \frac{\text{_____}}{\text{(Line 38)}} + \left(\frac{\text{_____}}{\text{(Line 38)}} \right) \times 15\% \\ 40 &= \$ \text{_____} \text{ (rounded to nearest \$10)} \end{aligned}$$

Notes to Customer:

You have the right, if you disagree with this estimate, to appeal to the California Public Utilities Commission, Water Branch, 505 Van Ness Avenue, San Francisco, CA 94102. Please include a copy of this completed form, annotated to show the costs with which you disagree.

You may choose to have this work done at your own expense by a licensed contractor subject to inspection by the utility. The inspection fee for this installation is \$_____.

Signed

Owner or Utility Representative

APPENDIX B

1. This Connection Fee Data Form is available to Class C and Class D water utilities and Class A and Class B utility districts of subsidiaries serving 2,000 or fewer connections. The blank Connection Fee Data Form must be filed in the tariffs of a utility seeking to assess a connection fee.
2. When the Connection Fee Data Form is filed in a utility's tariffs, the completed form showing costs of installation must be presented to all new individual customers seeking installation of a connection.
3. At the time a completed Connection Fee Data Form is presented to a customer, the utility must advise the customer, in writing, of the following:
 - a. An applicant for a water utility connection who disputes the fees set forth by the utility in its Connection Fee Data Form may file a complaint with the California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102-3298
 - b. An applicant for a water utility connection may, as an alternative to connection by the utility, have the connection performed by a contractor deemed qualified by the utility. Such installation must be done in accordance with utility specifications. Such installation is subject to inspection and approval of a utility, at an inspection fee rate of \$ _____ per hour. At completion of the installation, applicant must provide the utility with a copy of the contractor's invoice for the installation.
4. The Total Service Connection Cost (Line 38) represents a typical service connection in your service area for one service size. A separate calculation is required for each size.
5. Separate calculations are required for metered and flat rate service.
6. It is assumed that if procedures and equipment other than those included above are selected for a particular (but typical) installation (e.g., boring rather than trenching), it is because it is more economical for that particular installation. There is no need for special provisions for such cases.
7. The utility may request a deviation from its Connection Fees tariff and charge the actual cost of installation for any service for which the Total Cost of Service Connection exceeds the typical cost (Line 38) by three times.
8. Connection fees are assumed to be in the first \$50,000 of income for which the federal income tax rate is 15%.