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AGENDA ITEM #8585

WATER/RSK/FLC/PTL/MML/jlj

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

DIVISION OF WATER & AUDITS  
Water & Sewer Advisory Branch

RESOLUTION NO. W-4767  
June 18, 2009

**R E S O L U T I O N**

**(RES. W-4767), WEIMAR WATER COMPANY (WEIMAR). ORDER AUTHORIZING RATES FOR THE NEW TIMBER HILLS SERVICE AREA UPON ACQUISITION OF TIMBER HILLS MUTUAL WATER COMPANY (TIMBER HILLS) AND IMPOSING RECORD-KEEPING REQUIREMENTS.**

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**SUMMARY**

By Advice Letter (AL) 50-W, filed on February 23, 2009, Weimar submits for filing tariff Schedule No. 2R-TH, Monthly Flat Rate Service, to be applicable to Timber Hills customers receiving untreated surface water. Weimar also proposes to serve the Timber Hills customers treated water under its existing Schedule No. 1, General Metered Service. This resolution approves the tariffs and imposes record keeping requirements necessary to ensure that the Commission has adequate information to establish reasonable rates in the future.

**BACKGROUND**

By AL 50, Weimar, a Class D water utility, requests authority to provide domestic water service to Timber Hills customers under its current metered rates upon acquisition of the Timber Hills system. Weimar also proposes to adopt the current rates of Timber Hills for delivery of untreated surface water (raw water).

On December 1, 2008, Weimar and Timber Hills entered into a purchase agreement for the sale of Timber Hills to Weimar. Weimar currently serves treated water to Timber Hills through a master meter. Under the purchase agreement Weimar would serve treated water to the Timber Hills customers individually. In addition, Weimar would take over the raw water service provided to some of the Timber Hills customers. Decision 99-10-064, the Acquisitions and Mergers Decision, grants authority to water utilities for the acquisition of an adjacent mutual water company. However, in this case

the execution of the purchase agreement was conditioned upon, inter alia, approval of the rates by the Commission.

### **NOTICE AND PROTESTS**

Notice of the proposed rates was made to the Timber Hills customers prior to the execution of the purchase agreement. Service of the advice letter to one adjacent utility and the appropriate local agencies was made on February 13, 2009. Service was executed to additional parties on the advice of the Division of Water and Audits (DWA) on March 24, 2009. No protests were received.

### **DISCUSSION**

Filing of rates for a newly acquired system is generally made in accordance with paragraph 4.02 of the Settlement (Appendix D) to the Acquisitions and Mergers Decision. Paragraphs 4.02 states:

*"4.02 Filing of Rates.* The Parties agree that the acquiring utility should be authorized to file an advice letter placing into effect the existing rates of its adjacent or nearby water system, the acquired system's rates, or rates lower than either."

Ordering Paragraph 2 of that decision clarifies that the rates so filed are subject to Commission approval.

For domestic water rates Weimar proposes to apply its current tariff to the Timber Hills customers. This is consistent with the guidelines provided in the Acquisitions and Mergers Decision. Furthermore, since Timber Hills is a mutual water company, the Timber Hills customers have agreed to these rates in the purchase agreement.

For raw water Weimar proposes to apply the current Timber Hills flat rate of \$12.00 per month. This would appear to be consistent with the guidelines in the Acquisitions and Mergers Decision. However, the purchase agreement requires approval from the CPUC of, "Continued delivery of raw water at rates approximately equal to current rates *to cover materials and expenses to provide the service.*" (Emphasis added.) So, in effect, Weimar is agreeing, not only to adopt the current rate, but to adopt a methodology for setting raw water rates. This is not consistent with the Acquisitions and Mergers Decision and requires closer examination. See the discussion below.

The purchase agreement establishes a purchase price of \$0 and the workpapers provided with AL 50-W establish that Weimar will book the Timber Hills assets as contributed. Therefore, the acquisition itself will not contribute to future rate increases.

The listing of assets provided in AL 50-W as Exhibit C shows a net book value of the total system of \$263,310. In exchange, Weimar agrees to make needed improvements and to maintain the raw water service with the pass through pricing as described above. The improvements are estimated by Weimar to cost approximately \$10,000.

Being a mutual water company, the Timber Hills customers have imposed on themselves the current \$12.00 per month rate for raw water. There is no plan to extend raw water service beyond the Timber Hills area. Therefore, Division believes adopting the current rate is reasonable. Furthermore, the value of the acquired system and the economies of scale gained far outweigh any possible liabilities and any inequities related to treatment of the raw water rates as a pass through. Therefore, Division believes that the conditions imposed in the purchase agreement are reasonable.

Weimar provided a detailed estimate of earnings after the acquisition to support its proposed rates, demonstrating that it would not over-earn. Division estimates the post acquisition earnings to be somewhat higher, but still not in excess of the earnings adopted in Weimar's last GRC, pursuant to Res. W-4657.

Division believes that the rates Weimar proposes to apply to the Timber Hills service territory are reasonable.

Since the raw water rates are based on a pass through of the cost of materials and other expenses to provide the service, Weimar will need to maintain separate records for raw water revenues and maintenance of the raw water system, so the Commission will have adequate information to establish future rates.

### **COMPLIANCE**

Weimar has no outstanding compliance matters pending before the Commission. Weimar has been filing annual reports as required.

### **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

### **FINDINGS**

1. Weimar is a Class D water utility and currently serves treated water to Timber Hills through a master meter.
2. Weimar entered into a purchase agreement with Timber Hills on December 1, 2008.

3. Under the purchase agreement Weimar would serve treated water to the Timber Hills customers individually.
4. Weimar would also take over the raw water service provided to some of the Timber Hills customers.
5. The purchase price for the Timber Hills system is \$0.
6. The Timber Hills assets will be booked as contributions.
7. The book value for the Timber Hills system is \$263,310.
8. Weimar has agreed to make improvements to the Timber Hills system estimated to cost \$10,000.
9. The rates requested are not estimated to cause Weimar to earn in excess of its authorized rate of return after the acquisition.
10. No protests were received to the advice letter filing.
11. Decision 99-10-064, the Acquisition and Mergers Decision, grants authority to water utilities for the acquisition of an adjacent mutual water company.
12. The execution of the purchase agreement was conditioned upon, inter alia, approval of the rates by the Commission.
13. The conditions imposed on Weimar in the sales agreement are reasonable.
14. The rates requested by Advice Letter No. 50-W are reasonable and should be adopted.
15. The methodology for adopting raw water rates will require maintaining separate accounts for raw water revenues and maintenance of the raw water system.

**THEREFORE IT IS ORDERED THAT:**

1. Weimar Water Company, Inc. is authorized to make effective revised Schedule No. 2R-TH, Monthly Flat Rate Service, attached to Advice Letter No. 50-W, and to place its current metered tariff Schedule No. 1, General Metered Service, into effect in the Timber Hills service territory upon acquisition.
2. Weimar Water Company, Inc. is ordered to maintain separate accounts for raw water sales revenue and raw water system maintenance costs.

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 June 18, 2009; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director