

Decision 86-05-066 May 28, 1986

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order instituting investigation)
into the future desirability and)
necessity of annual charges payable))
in advance to water companies.)
_____)

I.84-11-013
(Filed November 7, 1984)

O P I N I O N

Background

A complaint filed in the matter of Wyrick v. Citizens Utilities Company of California and subsidiary company, Guerneville Water District (Guerneville), Case (C.) 84-01-05, raised the issue of the validity of annual charges payable in advance to water corporations regulated by this Commission. In Decision (D.) 84-11-008, the Commission dismissed that complaint on procedural grounds unrelated to the substance of the issue raised in the complaint. D.84-11-008 stated we would open an investigation into the reasonableness of annual charges for water service on a statewide basis.

The Commission issued the subject order instituting investigation (OII) for that purpose. All water utilities with tariffs permitting annual billings were named respondents in the OII.^{1/} Each respondent was ordered to return a completed questionnaire (Appendix B of the OII) to the Commission staff (staff). The

^{1/} D.84-11-013 corrected the OII to include two utilities whose names were inadvertently omitted in the original OII.

Summary of Staff Analysis

There are 10 classes of water service provided by the 295 water utilities under Commission jurisdiction. Those classes of service are as follows:

1. Metered service
2. Flat rate service
3. Irrigation service
4. Private fire protection service
5. Public fire hydrant service
6. Resale service
7. Service to governmental agencies
8. Interdepartmental service
9. Other water service (such as construction service)
10. Service to company employees

The OII was focused on AAC in Class 1 (metered) and Class 2 (flat rate) water service.^{3/} Service under these classes of service is provided under the following schedules:

Schedule
No.

- | | |
|----|--|
| 1 | Applicable to all metered water service. |
| 1A | Applicable to all metered water service furnished on an annual basis. |
| 1S | Applicable to all metered water service furnished on a seasonal basis. |
| 2 | Applicable to all flat rate water service. |

^{3/} Exhibit 1 does not assess other annual services provided by utilities; e.g., for irrigation service.

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly, or quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.
2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

Thus, new or first time customers falling under Schedules Nos. 1A, 1S, 2A, and 2R are required to pay for annual or seasonal service in advance. After 12 months, customers have the option to pay a lesser amount in advance if the utility's tariffs have more frequent billing periods. Under these tariff provisions, no refund of the initial annual charge is due the customer if service is terminated within the first 12 months. However, 31 of the 61 water companies responding to

which supply service under AAC schedules to some of their customers in relatively large districts. By letter (Appendix B of Exhibit 1), CWA suggested its members advise the Commission of possible detrimental financial and operational impacts on their operations which might occur if the Commission eliminated AAC. Some of the responses received by the Commission reflect the concerns expressed in CWA's letter, quoted below:

"On November 7, 1984 you received from the Public Utilities Commission notice of an investigation into the future desirability and necessity of Annual Service Charges. (Case No. OII 84-111-013)

"Included within this Notice under Appendix B is an 'Annual Service Charge Questionnaire' which requires a response by all affected water utilities no later than December 31, 1984.

"Clearly, if the Commission orders cessation of the Annual Service Charge, the revenue and related earnings impact could be significant and therefore detrimental to your company.

"Very simply, if annual service charges are abolished, a customer who periodically occupies the premises served will gain an economic incentive to frequently terminate and reestablish water service only during periods of occupancy. The benefit to this type of seasonal customer is obvious. The service charge is avoided when the premises are not occupied even though all facilities required to serve this seasonal customer are available year round.

"The effect upon you and your remaining customers is obvious. Revenue recovery and your earned rate of return will decrease which will require the filing of a costly rate increase application. Please note that in addition to revenue loss, customer payment patterns will also be altered which will have a measurable impact upon your working capital. Also you may be required to install costly shut-off control mechanisms at those premises taking service only periodically.

relatively low.^{5/} The utilities reported receiving AAC complaints from 216 customers^{6/} (0.6%) of the 37,314 customers involved. The staff seldom receives complaints in general rate proceedings involving customers under AAC.

AAC is a practical and desirable method of collecting revenues by water companies serving resort and certain rural areas; but a review of the operations of water utilities using AAC is needed due to changing conditions including higher costs for AAC service, more housing development, and changes in land use. In some cases, semiannual or quarterly billings may be preferable to minimize the impact of large AAC lump sum payments (e.g. one utility has a \$204 AAC).

^{5/} Guerneville's questionnaire states that in the 22 months ending October 1984, it received 23 customer complaints that its AACs (e.g. \$191 for a 5/8-x-3/4-inch meter) were too high and two complaints that its refund policy was unfair. However, 1,118 printed names were on the protest petition list filed in the Wyrick complaint, including more than one person at the same addresses. Guerneville's questionnaire states that it serves 743 customers on its AAC schedule out of a total of 3,300 customers.

^{6/} The staff notes that four utilities of the 19 located in rural areas reported 132 (61%) of the customer complaints about AAC; the total includes complaints from 108 of the 541 customers served by the Yosemite Springs Water Company, which had been authorized to increase its rates by 100% in 1983; that utility's AAC for a 3/4-inch meter increased to \$144.

The last annual reports filed by the remaining utilities show the following distribution of customers served from those systems:

7 to 50 customers	4*
51 to 100 customers	5
101 to 200 customers	6
201 to 400 customers	1
401 to 1,000 customers	1

* Includes estimates based on reported revenues of \$540 and \$1,620 for two utilities.

Revenues of \$17,801 for another utility would place it in either the 101 to 200 customer range or in the 201 to 400 customer range. Another utility, the Ryan Co., filed no questionnaire and no annual reports.

Some of the comments in the questionnaires opposing the ending of AAC are as follows: Their utility was barely meeting or was not meeting expenses at present rates; their customers generally understand why AAC is necessary; the utility relied on part-time personnel and/or volunteers to operate its system; additional work related to more frequent billings could result in a loss of volunteer assistance; their utility would be particularly vulnerable to loss of revenue and increased expenses due to disconnection of service when premises now served are not occupied; the utility would need funds to install shutoff valves and/or locks on shutoff valves; the utility expected large increases in its expenses for meter reading, billing, turning on, and turning off services. Some of the utilities located

The revenue losses resulting from temporary service interruptions could be discouraged by the utilities by establishing compensatory turn-on and turn-off charges. Such charges would reduce the likelihood of increased revenue requirements and would assign the additional costs incurred to the customers causing the increase in expenses. The charges should be designed to compensate the utility for the actual cost of disconnecting and reconnecting service and at the same time cover the customer's share of utility's fixed costs while disconnected. The fixed costs are certain costs that a utility continues to incur for its standby or readiness-to-serve utility plant facilities even when a customer is temporarily disconnected.

All water utilities currently authorized to provide AAC should file tariffs to implement optional payment plans and compensatory turn-on and turn-off charges. These tariffs shall be filed in their next general rate case or within six months of the effective date of this order, whichever comes sooner, and shall take effect January 1, 1987. The Commission Staff should consider recommending discontinuance of AAC tariffs in favor of the optional plans if it appears that a shift to more frequent billing cycles would cause a relatively small net revenue effect.

Thirty-one utilities state that when a property is sold the AAC is generally allocated through an escrow arrangement; other utilities will permit the new owner to continue receiving the credit on the AAC. Those procedures are reasonable and should be mandatory. It is unfair to permit utilities to twice charge for a single service where the service is rendered on a prepaid basis. If service is continuous following a property transfer to a new owner and customer, the new customer should be credited with an apportionable amount of the prepayment because it is unreasonable to

On the issue of service charges, Wyrick cites GO 103 Section VI.1., Method of Measuring Service:

"a. Metering. All water sold by a utility shall be on the basis of metered volume sales except that a utility may at its option provide flat rate or estimated service..."

That section requires selling measured quantities on a volumetric basis; it does not preclude establishment of additional service charges or minimum charges.

On the issue of service connection charges, Wyrick cites Section V.2.a.(1): "Charge for Service Connections. The utility shall make no charges to a customer for making a service connection..." However, Section V.2.a.(2) indicates that the service connection referred to is for service pipe, curb stop, meter, and meter box installations which connect the utility's distribution system and the customer's plumbing. Section I.6.f. of GO 103 permits reconnection charges where service had been disconnected for violation of utility rules or for nonpayment of bills.

The issues in this decision are not whether or not AAC or reconnection charges for nonpayment or nonobservance of company rules are permissible. The issues are whether AAC is reasonable in concept and, therefore, should be continued or whether the use of AAC be discontinued or modified. We have addressed those concerns above.

Findings of Fact

1. The Commission opened this investigation to bring into focus the purpose of annual billing, the effect of annual billing on the revenue requirement of a water utility, the effect of annual billing on customers, whether annual billing is a practical or a desirable method of collecting revenue, whether there are special circumstances that mandate annual billing over other types of billing, and any other issues related to annual advanced billing that any participant in the investigation might wish to present to the Commission for consideration.

2. The Commission ordered each respondent utility with tariffs permitting AAC billings to return a completed questionnaire (Appendix B of the OII) to the staff. Sixty-one of the utilities complied with that order, 19 utilities listed on Appendix B of this decision did not.

3. The primary purposes of AAC are to achieve stability of revenues and economies of service for water companies, primarily in resort and certain rural areas where there are high percentages of part-time customers.

4. Most of the utilities authorized to provide AAC serve so few customers that their viability is questionable. The limited funds generated from operations leave such utilities with little margin for continued operations if their revenues decrease substantially and/or their expenses or capital requirements increase substantially.

11. An adjustment in a utility's rates may be necessary to offset the increase in expenses which may be incurred as a result of implementation of the optional payment plan.

12. Optional payment plans would create an incentive for part-time customers to discontinue service during periods in which they were not occupying premises. This would have a detrimental effect on utility revenues caused by the loss of the customer's share of utility's fixed costs during the period of disconnection in addition to the added cost of disconnecting and reconnecting service.

13. Compensatory turn-on and turn-off charges compensating a utility for the actual cost of disconnecting and reconnecting service and at the same time covering the customer's share of utility's fixed costs while disconnected would discourage part-time customers from discontinuing services during periods in which they do not occupy premises.

14. GO 103 does not preclude establishment of AAC in utility tariffs.

15. An AAC is essentially a prepayment for utility service; a new customer acquiring property for which utility service has been prepaid should be credited with an apportionable amount of the prepayment so as to prevent the unfair double-billing of a single property.

O R D E R

IT IS ORDERED that:

1. Order Instituting Investigation 84-11-013 is closed.
2. Within sixty days of the effective date of this order, utilities requiring Advanced Annual Charges shall file tariffs to institute optional quarterly payment plans available to all customers and to provide for the crediting of an apportionable amount of an Advanced Annual Charge to a new customer's account where that new customer acquires a property whose previous owner has paid the applicable Advanced Annual Charge.
3. Utilities requiring Advanced Annual Charges shall file tariffs to institute compensatory turn-on and turn-off charges. Such filings shall be incorporated in the utility's next general rate case or within six (6) months of the effective date of this order, whichever occurs first.

This order becomes effective 30 days from today.

Dated May 28, 1986, at San Francisco, California.

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
FREDERICK R. DUDA
STANLEY W. HULETT
Commissioners

APPENDIX A
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TABLE 3

Financial Impact

(Switch from AAC to Monthly or Bimonthly Billing)

Service Area	A (23)	B Rural Resort (13)	C Rural Resort (19)	D Rural Suburban (1)	E Suburban Suburban (3)	F Urban Urban (2)	Total (61)
Extreme Financial Hardship	10	2	5				17
Loss of Revenue	4	7	2				13
Encourage Water Theft		2					2
Need Advance Deposit to Offset Revenue Lost	1	1					2
Shift Burden From Part-time to Full-time Customers	6	1					7
Additional Office Expenses (billing, collecting, booking)	17	11	5	1		1	36
Need Additional Office Personnel	3	2	2				7
Additional Field Expenses (on/off meter reading, maintenance)					Included in Office Expenses		
Need Additional Field Personnel	2	2					4
Additional Construction Cost for Valves	5	1	1				7
Difficult to Locate Valve in Deep Snow	4						4
Impair SDWBA Loan Payment-Shift Burden from Part-time to Full-time Customers		2					2
No Financial Impact (Not on AAC or Small Z AAC)	2	1	10		2	1	16
Customers are Happy & Don't Want Change	2						2

() Number of Water Companies.

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TABLE 5
AAC Refund Policy

Refund Policy	A Resort (23)	B Rural Resort (13)	C Rural (19)	D Rural Suburban (1)	E Suburban (3)	F Urban (2)	Total (61)
Prorated Refund on sale of Property	18	4	7	1	-	1	31
Refund Policy Based on Special Conditions in Tariff	5	1	2	-	-	-	8
No Refund	-	8	3	-	-	1	12
Not on AAC	-	-	7	-	3	-	10

() Number of Water Companies in Each Service Area

APPENDIX B

Utilities Failing to File
Questionnaires in OII.84-11-013

Anderson Springs Water Company
Cottage Springs Water Company
Berry Creek Water Company
Big Basin Water Company
Broadview Terrace Water Company
California Hot Springs Water Company
Grizzly Park Water Company
Hacienda Water Company
Lake Almanor Water Supply, Inc.
La Porte Pines Country Club
Lytle Springs Water Company
Pine Mountain Water Company
Ponderosa Sky Ranch Water System
Ryan Water System
Salmon Creek Water Company
Slide Inn/Snowbowl Water Co.
Sportsman's Paradise Water Company
Starlite Water Company
Trinity Village Water Company

(END OF APPENDIX B)