

WATER/ICRJ/FLC/KKL/RHG*

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
AUDIT AND COMPLIANCE BRANCHRESOLUTION W-4298
November 8, 2001R E S O L U T I O N

Resolution W-4298. WATERTEK, INC. (WATERTEK), OAK HILLS (OHD) AND INDIAN SPRINGS (ISD) DISTRICTS. ORDER AUTHORIZING AN INTERIM GENERAL RATE INCREASE, SUBJECT TO REFUND, PRODUCING ADDITIONAL GROSS ANNUAL REVENUE OF \$65,936 (59.9%) IN OHD and \$23,642 (33.9%) IN ISD.

By Draft Advice Letter Filed on June 11, 2001 for OHD and on June 27, 2001 for ISD.

SUMMARY

This Resolution grants Watertek, a sewer utility, an interim increase in gross annual revenue of \$65,936 for its OHD and \$23,642 for its ISD, subject to refund. The increase will provide Watertek with no rate of return on its rate base, but with sufficient monies to pay for current cash operating expenses in these districts.

By Draft Advice Letter filed June 11, 2001, Watertek requests authority under Section VI of General Order (G.O.) No. 96-A and Section 454 of the Public Utilities (P.U.) Code to increase rates in the OHD by \$134,453 or 116.04%, in the year 2001.

By Draft Advice Letter filed June 27, 2001, Watertek requests authority under Section VI of G.O. No. 96-A and Section 454 of the P.U. Code to increase rates in the ISD by \$58,113 or 83.38%, in the year 2001.

Six letters were received from customers of the OHD objecting to the proposed interim rate increase.

Under Rule 55 of the Commission's Rules of Practice and Procedure, proceedings involving related questions of law or fact may be consolidated. Watertek's Draft Advice Letters are substantially similar in that they both request authority to increase rates. Both

filings will be reviewed pursuant to the Service Guarantee Plan for Small Water Companies (Plan) issued February, 1996. The filings are therefore consolidated and will be addressed jointly in this Resolution.

BACKGROUND

Watertek provides sewer service to the subdivisions of Oak Hills, Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County. There are approximately 448 flat rate customers in the Oak Hills District and 176 flat rate customers in the Indian Springs District. The rates for the Spreckels District (with over 200 service connections) are not included or affected by the filings. Watertek also provides water service to customers in its Grandview District and owns the Metropolitan Water Company.

Pursuant to its 2000 Annual Report, Watertek reported that its OHD generated total operating revenues of \$110,135, with a net loss of \$17,432 and that its ISD generated total operating revenues of \$69,826, with a net loss of \$4,605. In view of the negative cash flow problem, the owner of Watertek has absorbed costs that normally would be included in rates. Watertek's filings indicate that system repairs to the existing sewer systems and manpower support are likewise needed to continue operations and service.

OHD's current rate became effective February 2, 1998 pursuant to Decision (D.) 92-03-093. ISD's current rate became effective December 26, 1997 pursuant to D.97-10-013.

NOTICE AND PROTESTS

Watertek notified its OHD and ISD customers of the interim rate increase by letter dated August 16, 2001. A revised notice was sent to these customers on October 5, 2001. The Water Division received six letters from customers in the OHD opposing the proposed interim rate increase. One letter states that the utility may use the revenues to finance the acquisition of other small utilities and another questions the justification for the amount of the rate increase.

Water Division has replied to the letters individually.

Water Division will be holding informal public meetings to discuss Watertek's general rate increase request for each district and to receive customer input.

DISCUSSION

As part of the Risk Order Instituting Investigation (Risk OII, I.90-11-033), the Commission in D.92-03-093, adopted new policies in response to the growing economic crisis that threatened the small (Class C and Class D) investor-owned water utility's ability to deliver clean, safe drinking water. Through D.92-03-093, the Commission determined that traditional ratemaking policies which were satisfactory for large water utilities were only sporadically successful in coping with the problems of the smaller Class C and Class D water utilities. Some of the policies adopted included simplified rate filings based on the Consumer Price Index, a new method to recover unanticipated repair costs deemed critical to continued service, an increased range of rate of return, and a number of streamlined procedures to simplify and speed regulatory review in order to encourage small water utilities to see Commission review of their operations as part of a more substantial adjustment in rates.

The Commission's on-going concern regarding the processing time for small water utility's transactions resulted in the creation of the Plan. The Plan provides an almost immediate simple mechanism to process an interim rate increase, usually within 45 days of filing. The interim increase, subject to refund, is based on a cash flow analysis. The analysis determines how much the utility needs to operate and to pay bills, including debt service. This Resolution implements this mechanism for Watertek's OHD and ISD.

The Audit and Compliance Branch initially prepared a cash flow analysis for OHD and ISD and estimated that the amounts of \$15,932, or 14.47% and \$4,001 or 5.73%, respectively, were necessary for Watertek to meet its cash flow requirements. The Advisory Branch revised these amounts after further investigation revealed that Watertek had not been fully accounting its expenses. It was then determined that gross annual revenues would need to be increased by \$65,936, or 59.9%, in the OHD and \$23,642, or 33.9%, in the ISD in order for Watertek to meet its actual cash flow requirements for each district.

In order to respond to Watertek's negative cash flow problem in its OHD and ISD, the Water Division recommends the proposed interim rates shown below be granted, subject to refund, pending the final results of the staff investigation needed to set permanent rates. The proposed interim rates are as follows:

Oak Hills District

	<u>Per Quarter Present</u>	<u>Interim Proposed</u>
For each residential and small commercial service connection	\$64.66	\$101.44

Indian Springs District

	<u>Per Month Present</u>	<u>Interim Proposed</u>
For each residential and small commercial service connection	\$33.00	\$44.19

This is an uncontested matter¹ in which the resolution grants an interim rate increase subject to refund, pending determination of permanent rates. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The interim rates recommended by the Water Division (Appendix A) are reasonable and should be adopted.
2. The rate increase authorized herein should be subject to refund pending the completion of the staff investigation of Watertek’s general rate increase request.
3. There are no formal protests received.

THEREFORE, IT IS ORDERED THAT:

1. Watertek, Inc. is authorized to file an advice letter adopting the revised Schedule No. 2, Flat-Rate Service, attached to this Resolution as Appendix A, and to concurrently cancel its presently effective rate schedule. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall not be earlier than five days after the date of its filing.
2. The rate increase authorized herein is subject to refund pending final resolution of Watertek, Inc. Oak Hills District and Indian Springs District permanent rate increase requests.
3. The Advice Letter and tariff sheets shall be marked to show that they were authorized by Resolution W-4298.

¹ No formal protests were received.

4. 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 November 8, 2001; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

APPENDIX A

Schedule No. 2

FLAT-RATE SERVICE

APPLICABILITY

Applicable to all flat-rate service.

TERRITORY

Subdivisions of Oak Hills and Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County.

RATES

	<u>Per Quarter</u>		<u>Per Month</u>
	<u>Oak Hills</u>	<u>Spreckels</u>	<u>Indian Springs</u>
For each residential and small commercial service connection	\$101.44 (I)	\$107.00	\$44.19 (I)
For each service connection of a school		\$160.00	
For each service connection of a commercial establishment with 4 or more employees		\$214.00	
For each industrial service connection		\$641.00	

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

2. Spreckels customers may remit quarterly bills in three equal installments on the first day of the month. (D)