

WATER/ICRJ/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4368
March 13, 2003**

R E S O L U T I O N

RESOLUTION W-4368. POINT ARENA WATER WORKS, INC. (PAWW). REQUEST TO ADJUST THE SURCHARGE RATES AUTHORIZED IN RESOLUTION NO. (RES.) W-4233 DUE TO CHANGES IN THE NUMBER OF CUSTOMERS BY METER SIZE.

By Advice Letter No. 44 filed on October 10, 2002.

SUMMARY

This Resolution grants PAWW the authority requested in Advice Letter (AL) No. 44.

Pursuant to General Order No. 96-A Section VI and Ordering Paragraph 8 of Res. W-4233, PAWW seeks to adjust the surcharge rates previously authorized in Res. W-4233 to correct and reflect changes from June 2000 to January 2002 in the number of customers by meter size.

Notice of AL No. 44 was made by publication in the Commission’s Daily Calendar of October 18, 2002. The proposed surcharge adjustment (an increase attendant to the current number of customers by meter size) appeared in a local newspaper of general circulation in South Mendocino County and Northern Sonoma County on November 15, 2002. A letter from the City of Point Arena (City) was received objecting to the surcharge rate increase.

The draft resolution of the Water Division in this matter was noticed to the parties in accordance with PU Code § 311(g). Comments were filed on ____ by _____, and reply comments were filed on ____ by _____.

BACKGROUND

PAWW, a Class D water utility is subject to the jurisdiction of this Commission. PAWW provides service to the City of Point Arena and vicinity, and the Whiskey Shoals Subdivision Unit Nos. 1,2, and 3, in Mendocino County.

Res. W-4233 dated November 21, 2000, authorized PAWW to:

1. Borrow a total of \$37,458 to refinance the construction of a building to house an auxiliary generator and to pay for the cost and installation of a redwood tank.
2. Implement a surcharge to repay the loan principal and interest.
3. Report to the Water Division on or before July 31, 2001, and yearly thereafter, for as long as the surcharge is imposed, changes in the number of connections by type of customer and by size of connection, the amount of surcharge collected, the amount of repayments made, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account. To indicate in said report, if an advice letter will be forthcoming to reflect changes in the rate surcharges.

Res. 4233 also permitted PAWW to charge Point Arena Associates (low income housing) and Wharf Masters Inn (each with 6-inch meter service to meet fire protection requirements) the 4-inch meter surcharge because a 4-inch meter would have been adequate to provide for domestic water consumption at each location.

The pump house building financed by the loan was completed during the last quarter of 1999 and the redwood tank at Whiskey Shoals was installed in mid 1996.

PAWW states in the filing that in the original computation of the surcharge, 152 customers with 5/8-inch meter size were inadvertently placed under the 3/4-inch category. These customers were charged the 3/4-inch surcharge of \$2.40 for eleven months¹. On January 2002, Point Arena found the error and started billing the customers the 5/8-inch surcharge of \$1.60.

Together with the above-cited omission, the changes as of July 19, 2002 in PAWW's customer distribution are as follows:

Size of Meter	Year 2000	Year 2002
5/8 x 3/4" meter	0	152
3/4" meter	162	8
1" meter	10	10
1 1/2" meter	0	0
2" meter	4	5
3" meter	0	0
4" meter	2	2
6" meter	<u>0</u>	<u>0</u>
Total	<u>178</u>	<u>177</u>

NOTICE AND PROTESTS

On November 15, 2002, a notice of the proposed increase in surcharge rates expressed in dollar and percentage terms was published in the Independent Coast Observer, a newspaper printed and published every week in the town of Gualala and circulated in South Mendocino County and Northern Sonoma County.

The Water Division received a letter from the City dated November 27, 2002 (attached herewith as Exhibit 1) stating its objection to the surcharge adjustment. The City is a customer of Point Arena.

¹ Resulting in an overcharge of \$0.80 per month or \$8.80 for eleven months per customer.

Specifically, the City states that newspaper publication of the surcharge adjustment is not sufficient; there should be some form of compensation to customers billed with the incorrect surcharge; comments questioning the project funded by the surcharge; and PAWW's inability to remit the surcharge funds to the lender.

On December 6, 2002, the Water Division received by facsimile PAWW's response to the City (attached herewith as Exhibit 2).

PAWW states that: (1) the utility followed the Water Division's staff instruction on noticing the public; (2) the matter pertaining to rectifying customers charged with the $\frac{3}{4}$ " surcharge for eleven months was resolved in Resolution (Res.) W-4356 dated October 24, 2002; (3) Whiskey Shoals has been in the utility's service area since 1971; and (4) the surcharge funds have been used to pay other expenses.

DISCUSSION

This matter before us includes both improper overcharges to some customers as well as an incorrect surcharge rate schedule arising from an inadvertent and unintentional error. We need to correct both problems in this order. Overcharged customers should receive refunds and the correct surcharge (based on the actual number of customers by meter size) to support the debt authorized by Res. W-4233 should be in place.

Our order today refunds the total of \$8.80 overcharges experienced by each of the 152 customers affected. However, this Commission is not authorized to award punitive damages to customers and we do not believe the circumstances here justify sanctions against PAWW in the form of fines.

Because of the oversight in the number of customers by meter size in the original computation of the surcharge, PAWW's balancing account produced an under collection and the utility cannot meet the required monthly payment of the loan. The annual payment for the loan as stated in Res. W-4233 is \$6,703.20 or \$558.60 per month. The $\frac{5}{8}$ -inch surcharge of \$1.60 together with the other meter size surcharges bring about a total

monthly surcharge collection of \$446.20 (a deficiency of \$112.40 per month). Once the surcharge is adjusted, PAWW will be able to generate sufficient funds to repay the loan authorized by Res. W-4233.

In its letter protesting this proceeding, the City claims that newspaper publication of the surcharge adjustment is not sufficient. Rule 24 of the Commission's Rules of Practice and Procedures requires a utility proposing increases in rates to notice each concerned parties within 10 days of filing and also within 10 days after filing to publish increased in rates at least once in a newspaper of general circulation in the county. It has been the Water Division's practice to require only a newspaper publication if rate increases are under 10% of a utility's total revenues.

The City also questioned why ratepayers have to pay for improvements (storage tank) to a nonpublic water system that provides no benefit to them (the Department of Health Services (DHS) does not recognize the Whiskey Shoals system as a public water system). DHS has its own criteria to determine its regulatory jurisdiction, which is independent of the Public Utilities Commission. Since 1971 the Whiskey Shoals system has been part of PAWW's certificated service area and as such falls under the jurisdiction of this Commission along with the City. The City and Whiskey Shoals customers pay the same rates for water service and, therefore, share the cost of providing service and system improvements service-area wide, whether or not the systems are contiguous.

The terms and conditions of the loan as shown in Res. W-4233 remain unchanged. There are no proceeds or new money associated with this filing.

The situation pertaining to Point Arena Associates and Wharf Masters Inn has not changed.

PAWW's present charges for water service were authorized by Resolution W-4356 effective October 30, 2002.

The proposed surcharge rates follows:

Quantity Rates: All water, per 100 cu. ft. \$4.96

Service Charge:

<u>Size of Meter</u>	<u>Present Rate</u>	<u>Present</u>	<u>Proposed</u>	<u>Increase</u>	<u>% Inc.</u>
	<u>Per Meter Per Month</u>	<u>Surcharge Per Month</u>	<u>Surcharge Per Month</u>		
5/8 x 3/4" meter	\$ 42.93	\$ 1.60	\$ 2.00	\$ 0.40	25.0%
3/4" meter	54.18	2.40	3.00	0.60	25.0%
1" meter	67.69	4.00	5.01	1.01	25.0%
1 1/2" meter	94.80	8.00	10.01	2.01	25.0%
2" meter	126.33	12.80	16.02	3.22	25.0%
3" meter	214.33	23.95	30.03	6.08	25.0%
4" meter	291.52	39.90	50.05	10.15	25.0%
6" meter	484.47	79.80	100.11	20.31	25.0%

As shown below, the re-calculated surcharge schedule will generate a monthly surcharge collection of approximately \$558.00 sufficient to cover the monthly loan payment.

<u>Size of Meter</u>	<u>Surcharge</u>	<u># of Connection</u>	<u>Total per Month</u>
5/8 x 3/4" meter	\$ 2.00	152	\$304.00
3/4" meter	3.00	8	24.00
1" meter	5.01	10	50.10
1 1/2" meter	10.01	0	0
2" meter	16.02	5	80.10
3" meter	30.03	0	0
4" meter	50.05	2	100.10
6" meter	100.11	0	<u>0</u>
			<u>\$558.30</u>

The monthly bill for a typical 5/8" metered customer using 630 cubic feet of water would increase from \$76.84 to \$77.24 or 0.52%. Approximately 86% of Point Arena's customer base have 5/8" meters.

We have reviewed PAWW's request for surcharge adjustment based on the current number of meter connections as provided for under Ordering Paragraph 8 of Res. W-4233 and have determined that it is reasonable and for proper purposes.

It is equitable and reasonable to allow Point Arena to continue charging Point Arena Associates and Wharf Masters Inn the 4-inch meter surcharge.

This Commission will authorize PAWW's surcharge adjustment. The adjusted surcharge will be sufficient to make the principal and interest payments on the loan. There will be no profit for the utility owners. Unless necessarily adjusted in the future, the surcharge will last until the loan is repaid. The surcharge adjustment will be governed by the same conditions set forth in Res. W-4233 with the following additions to ensure proper accounting and handling:

1. PAWW should open a separate bank account and deposit therein all rate surcharges within thirty days of collection.
2. PAWW should provide the Director of the Water Division a quarterly summary detailing the amounts of receipts and disbursements in the surcharge bank account.
3. PAWW should maintain, and within thirty days from request provide the Director of the Water Division any documents, bank statements, and information related to the loan and surcharge collection.
4. PAWW should continue recording all billed surcharge and the accrued interest on the revenues in its balancing account. The balancing account should be charged with payments of principal and interest on the loan.

5. Commission staff will conduct periodic audit of PAWW's books and the special bank account to ensure that all activities are in accordance with Commission's rules and regulations.

As permitted in Res. W-4233, the above computation provides for a 4-inch meter surcharge rate for Point Arena Associates (low income housing) and Wharf Masters Inn.

We approve the proposed surcharge schedule attached to this order as Schedule A, so that PAWW will be able to generate the required monthly loan payment amount of \$558.60.

We will also require PAWW to refund in the form of a credit against the utility's service charge revenue, the amount of \$0.80 per month for a period of eleven months to the 152 of its 5/8-inch metered customers who were previously billed incorrectly.

PAWW is put on notice by this resolution that the Commission does not permit a utility, either through carelessness or design, to disobey the provisions of Commission orders, either in letter or in spirit. In the future, if the Commission becomes convinced that any of its orders are being knowingly violated, PAWW will find us less accommodating.

We remind PAWW of the provision of Public Utilities § Code 856:

Every officer, agent, or employee of a public utility, or of a subsidiary or affiliate of, or a corporation holding a controlling interest in, a public utility, and every other person subject to the requirements of this article, who violates or fails to comply with, or procures, aids, or abets any violation of, this article is guilty of a misdemeanor.

FINDINGS

1. PAWW's proposed adjustment in surcharge rates would generate approximately \$6,703 per year or \$558 per month to repay the principal and interest on the loan authorized by Res. W-4233.

2. The proposed rate surcharge will increase the water rates by \$0.40 per month for approximately 86% of PAWW's customers.
3. PAWW should be required to refund to its 5/8-inch metered customers by providing a credit of \$0.80 per month against service charge revenue for eleven months commencing with the first billing after the effective date of this resolution.
4. It is reasonable to allow PAWW to charge Point Arena Associates and Wharf Masters Inn the surcharge applicable to a 4-inch meter.
5. The increases in surcharge rates authorized by this Resolution are justified and are reasonable.
6. PAWW should review annually the rate surcharge and adjust as necessary, by the advice letter procedure, the rate surcharge to reflect changes resulting in overages and shortages in the balancing account.

THEREFORE, IT IS ORDERED THAT:

1. Point Arena Water Works, Inc. is authorized to file in accordance with General Order No. 96-A, and make effective on five days' notice, an advice letter which implements the adjusted rate surcharges attached to this order as Appendix A.
2. Point Arena Water Works, Inc. shall provide overcharge credits against its service charge revenues to its 5/8-inch metered customers in installments of \$0.80 per month for eleven months commencing with the first billing after the effective date of this resolution.
3. Point Arena Water Works, Inc. shall collect the 4-inch meter surcharge from Point Arena Associates and Wharf Masters, Inn.
4. Point Arena Water Works, Inc. shall open a separate bank account and deposit all rate surcharges within thirty days of collection.
5. Point Arena Water Works, Inc. shall continue using a balancing account to be credited with revenue collected through the surcharge and the

accrued interest on the revenue. The balancing account shall be charged with payments of principal and interest on the loan.

6. Point Arena Water Works, Inc. shall provide the Director of the Water Division a quarterly summary detailing the amounts of receipts and disbursements in the surcharge bank account.
7. Point Arena Water Works, Inc. shall maintain, and within thirty days from request provide the Director of the Water Division any documents, bank statements, and information related to this proceeding.
8. Commission staff will conduct periodic audit of Point Arena Water Works, Inc.'s books and the special bank account to ensure that all activities are in accordance with Commission's rules and regulations.
9. As a condition of the rate increase granted herein, Point Arena Water Works, Inc. shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.
10. In all other respects, Resolution W-4033 remains in full force and effect.

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 _____; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

EXHIBIT 1

**Letter from the City of Point Arena
dated November 27, 2002**

EXHIBIT 2

**Facsimile Response of Point Arena Water Works, Inc.
dated December 6, 2002.**

APPENDIX A

Schedule No. 2-X

GENERAL METERED SERVICE SURCHARGE

APPLICABILITY

Applicable to all metered service. This surcharge is specifically for the repayment of the Bed-Rock, Inc. loan as requested in Advice Letter Numbers 36 and 37 filed on June 26, 2000 and revised in Advice Letter (T) Number 44 filed on October 10, 2002.

TERRITORY

The City of Point Arena and vicinity.

LOAN REPAYMENT SURCHARGE

<u>Size of Meter</u>	<u>Surcharge Per Meter Per Month</u>	
5/8 x 3/4" meter	\$ 2.00	(I)
3/4" meter	3.00	
1" meter	5.01	
1 1/2" meter	10.01	
2" meter	16.02	
3" meter	30.03	
4" meter	50.05	
6" meter	100.11	(I)

SPECIAL CONDITIONS

1. This surcharge is in addition to the water bill. The surcharge is specifically for the repayment of the Bed-Rock, Inc. loan authorized by Resolution No. 4233, as adjusted by Res. No. 4368. (T)
2. Point Arena Associates and Wharf Master Inn will be charged the 4-inch meter surcharge pursuant to Resolution No. 4233 and Resolution No. 4368. (T)

