

**DRAFT**

**AGENDA ITEM #1404**

**WATER/ABJ/PTL:jlj**

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

**WATER DIVISION  
Water Branch**

**RESOLUTION NO. W-4365  
January 16, 2003**

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

**(RES. NO. W-4365), CALIFORNIA-AMERICAN WATER COMPANY (CAL-AM). ORDER AUTHORIZING CAL-AM TO FILE RATE SCHEDULES FOR RALPH LANE WATER SYSTEM AND CHUALAR WATER SYSTEM WHICH ARE TO BE ACQUIRED FROM MONTEREY COUNTY.**

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**SUMMARY**

By Advice Letter No. 565, filed May 6, 2002, Cal-Am requests the authority to purchase the County of Monterey's (County) Ralph Lane Water System (RLW) and Chualar Water System (CW). Section 4.01 of Appendix D of Commission Decision (D.) 99-10-064, dated October 21, 1999, in the "Order Instituting Rulemaking On The Commission's Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies," does not require a privately-owned utility to obtain authorization from the Commission before acquiring a publicly-owned utility. Therefore, this resolution grants Cal-Am authority to file rate schedules for RLW and CW once the two systems are acquired from Monterey County.

**BACKGROUND**

Cal-Am requests authority to purchase RLW and CW from the County in conformance with the terms and conditions of Section 4.00 of Appendix D to Decision 99-10-064, in the Order Instituting Rulemaking on the Commission's Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies. As indicated in the Summary Section above, D.99-10-064 does not require a privately-owned utility to obtain authorization from the Commission before acquiring a publicly-owned utility. Cal-Am submits the new rate schedules and revised service area maps delineating the territory it proposes to acquire under Section V of General Order 96-A (GO 96-A) and Section 455 of the Public Utilities Code.

Section 4.00 of Appendix D to D.99-10-064, "Acquisition of Mutual and Publicly-owned Water Systems" is the applicable authority for this advice letter.

The County has heavily subsidized RLW and CW over the years and does not wish to continue doing so. In order for the two systems to stand-alone financially without being subsidized, the County would have to raise rates considerably. In negotiations with Cal-Am regarding the possible sale of the two systems, the County determined that Cal-Am was not only ready and willing to purchase and operate the two systems, but would also be able to charge rates that would be lower than what the County would eventually have to charge. In view of this, the County Board of Supervisors, at its regular meeting of October 16, 2001, approved the sale of RLW and CW to Cal-Am. The County reviewed the legal requirements regarding the sale of the two systems and determined that they were not required to hold an election among system customers for approval. The current monthly bill for a RLW customer using 1400 cubic feet of water is \$67.14. The current monthly bill for a CW customer using 1400 cubic feet of water is \$27.60.

Section 4.02 of Appendix D to D.99-10-064 states in part,

".... 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."

Cal-Am requests authorization to apply the tariff rates applicable as of January 1, 2002, for its Hidden Hills Subdivision, immediately to the customers of RLW, which will produce a monthly bill of \$52.84. Cal-Am also requests authorization to retain the existing rates the County charges CW customers and incrementally increases the rates over the next five years until they reach the same level as those in its Hidden Hills Subdivision, which is nearby.

## **DISCUSSION**

As required on page 10 of the Mergers and Acquisition OIR, the utility may propose rates for the acquired systems; the Commission must decide whether those proposed rates are reasonable. Both the RLW and CW systems will be merged with Cal-Am's Monterey District. The Monterey District rates, which have been determined to be fair and reasonable by the Commission in its last general rate case, are presently lower than RLW's current rates and higher than CW's current rates.

Cal-Am proposes to reduce RLW's rates to match its Monterey District rates. Because the number of customers in the RLW system is insignificant compared to the number of customers in the Monterey District, there will be no impact on the cost of providing

service and, therefore, no effect on rates in the Monterey District after Cal-Am acquires RLW. In view of this, the Division believes that the rates proposed for Cal-Am's newly acquired RLW customers are fair and reasonable.

As stated above, CW's rates are currently lower than the Monterey District's rates. In order to alleviate rate shock to the CW customers, Cal-Am proposes to keep the CW rates as they are and incrementally increase the rates over the next five years until they reach the same level as those in the Monterey District into which it will be merged. Because the number of customers in the CW system is insignificant compared to the number of customers in the Monterey District, the lower rates assessed the CW customers will have no impact on the cost of providing service and, therefore, no effect on rates in the Monterey District after Cal-Am acquires CW. In view of this, the Division believes that the rates proposed for Cal-Am's newly acquired CW customers are fair and reasonable.

### **NOTICE AND PUBLIC MEETINGS**

Over the last year-and-one-half, the County has held several community town meetings with RLW and CW customers discussing the sale and the potential rate implications. All customers were individually notified of the meetings and were invited to participate in the discussions.

The County held a formal public meeting on October 10, 2001, to discuss the sale and potential rate implications on customers. All RLW and CW customers were individually notified of the meeting. The comparison of rates both under Cal-Am ownership and under the ownership of the County were the focus of discussion at the meeting. There were no protests concerning the proposed sale.

### **FINDINGS AND CONCLUSIONS**

1. It is in the ratepayer's interest that Cal-Am purchase and take over ownership of the RLW and CW systems.
2. The rates for RLW and CW meet the requirements of D.99-10-064.

### **THEREFORE IT IS ORDERED THAT:**

1. California-American Water Company is ordered to provide to the Water Division a true copy of the instrument effecting the sale and transfer of ownership of Ralph Lane Water System and the Chualar Water System from Monterey County to California-American Water Company once the sale and transfer is consummated.

2. California-American Water Company is authorized to make effective Schedule No. MO CO-1, General Metered Service, revised Schedule No. MO-4, Private Fire Protection Service, and revised service area maps, attached to Advice Letter 565, upon compliance with requirement set forth in Ordering Paragraph 1. Revised rate schedules and service area maps will become effective five days after receipt of sale and transfer instrument required in Ordering Paragraph 1.
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 January 16, 2003; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director