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**WATER/FLC/JPT/MXK/JMW/ijj**

**AGENDA ITEM #4891**

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

**WATER DIVISION**

**RESOLUTION NO. W-4560**

**September 8, 2005**

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

**(RES. W-4560), ALISAL WATER CORPORATION, ALCO WATER SERVICE (ALCO), SALINAS DISTRICT. ORDER AUTHORIZING A SURCHARGE TO RECOVER AN INCREASE IN WATER QUALITY EXPENSES PRODUCING AN INCREASE IN ANNUAL REVENUE FOR THE SALINAS DISTRICT OF \$80,373 OR 1.94%.**

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**SUMMARY**

By Advice Letter No. 101, filed on April 26, 2005 Alco, Salinas District, seeks to add a surcharge of \$2.36 per month for four months to its Schedule No 1, General Metered Service. The increase requested is to recover water compliance costs incurred in 2004 over and above the amount allowed in Alco's Salinas District's last general rate case. This increase will not result in a rate of return greater than that last authorized for Alco's Salinas District.

This resolution hereby grants Alco the authority to recover \$80,373 in its Water Quality Memorandum Account (WQMA).

**BACKGROUND**

Alco, a Class B utility, provides water service to 8,532 customers in its Salinas District located in Monterey County. Alco requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to recover \$80,373 or 1.94%, through a surcharge over a period of four months for water quality costs including testing, sampling, and compliance in year 2004. Alco's Salinas District's present rates became effective on September 4, 2004 pursuant to Resolution (Res.) No. W-4491, granting recovery of costs in its 2003 WQMA. Alco's last general rate increase was granted pursuant to Res. No. W-3908 dated February 8, 1995.

**NOTICE AND PROTESTS**

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Notice of the proposed rate increase was published in The Californian, a newspaper of general circulation, on May 2, 2005, as evidenced by proof of publication provided to the Water Division by the utility. There were no protests concerning the proposed offset increase.

**DISCUSSION**

Res.No. W-4327, dated March 6, 2002, authorized all Class B, C, and D water utilities to establish WQMA for recording expenses resulting from drinking water regulations, including water sampling, testing, and compliance costs not presently included in rates. Class B, C, and D water utilities were also authorized to request recovery of these account balances by advice letter filings in accordance with General Order No. 96-A.

Alco's filing includes a request for bottled water expenses, which is provided on a temporary basis to its San Jerardo customers due to high levels of nitrates in its well. The Code of Federal Regulations, Title 40-Protection of Environment, Chapter I-Environmental Protection Agency, Subchapter D-Water Programs Part 141-National Primary Drinking Water Regulations, Subpart J-Use of Non-Centralized Treatment Devices, allows the use of bottled water on a temporary basis. Additionally, the California Health and Safety Code and CPUC General Order 103 require the utility to provide a reliable and adequate supply of pure, wholesome, healthful, and potable water, in no way harmful or dangerous to health. Alco is temporarily accomplishing this by providing bottled water to its San Jerardo customers, for drinking and cooking purposes, with the consent and support of the Department of Health Services.

After the water supply to the San Jerardo system was determined to be contaminated with nitrates, Alco drilled two test wells in search of a replacement water supply. The first test well did not yield an adequate supply and the second test well was contaminated with nitrates. The utility then considered bringing surface water from the Salinas River, however, the cost of transporting and treating the water would not be cost effective. The only remaining long-term solution is to build a 4-inch main from the main Salinas system to San Jerardo (approximately 3-4 miles) at an approximate cost of \$500,000. The San Jerardo system is currently in receivership and a sale of the system is pending. Alco plans to continue temporary bottled water deliveries until the sale of the system is finalized. Once under new ownership, a more permanent solution to the water quality problem can be pursued.

The surcharge requested herein would allow Alco to recover the WQMA balance for the year 2004. The Water Division conducted an earnings test on an actual basis for recorded year 2004. Alco reported a net operating revenue of \$505,367 or 9.69% rate of return for 2004 on a recorded basis and is not earning over its authorized rate of return

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of 10.72%. The Water Division recommends that Alco be authorized to assess a surcharge of \$2.36 per customer per month for a period of four months for its Salinas District.

**FINDINGS**

1. Resolution No. W-4327 authorized all Class B, C, and D water utilities to establish WQMAs for recording expenses resulting from drinking water regulations not presently included in rates.
2. Class B, C, and D water utilities were authorized to request recovery of the WQMA account balances by advice letter filings.
3. Alco filed Advice Letter No. 101 to seek a surcharge to recover WQMA costs incurred during 2004, including temporary bottled water costs.
4. The Code of Federal Regulations allows the use of bottled water on a temporary basis to avoid unreasonable risk of health.
5. The California Health and Safety Code and PUC General Order 103 require utilities to provide a reliable and adequate supply of pure, wholesome, healthful, and potable water, in no way harmful or dangerous to health.
6. The undercollections in the WQMA represent 1.95% of gross revenues for Salinas District.
7. The surcharge herein would allow Alco to recover the WQMA balance, which totals \$80,373.
8. It is proper for Alco to assess a surcharge for \$2.36 per customer per month over a period of four months to recover the WQMA costs.
9. The Commission finds, after investigation by the Water Division, that the request is justified, and the resulting rate is just and reasonable.
10. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311 (g) (3).

**THEREFORE IT IS ORDERED THAT:**

1. Alisal Water Corporation, Salinas District, is authorized five days after the effective date herein, to make effective revised Schedule 1, General Metered Service, attached to Advice Letter No. 101, and to cancel the corresponding presently effective rate schedule.
2. Alisal Water Corporation is directed to maintain a balancing account as required by Public Utilities Code Section 792.5.
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 September 8, 2005; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director