

WATER/RSK/PTL/OE2/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch

RESOLUTION W-4831
June 3, 2010

R E S O L U T I O N

(RES. W-4831), OWENS VALLEY WATER COMPANY (OWENS VALLEY). ORDER AUTHORIZING A SURCHARGE OF \$7.71 FOR TWENTY-FOUR MONTHS FOR RECOVERY OF ITS UNANTICIPATED REPAIR COST MEMORANDUM ACCOUNT (URCMA) FOR A TOTAL OF \$20,512.

SUMMARY

By Advice Letter 14, dated November 9, 2009, Owens Valley seeks to recover unanticipated expenses of \$20,512 for the repair and replacement of water mains damaged by over grown tree roots and damaged well motor and pumping equipment. This resolution authorizes Owens Valley to implement a surcharge of \$7.71 for its 111 customers for a twenty-four month period to recover costs incurred from these repairs. This surcharge will not result in a rate of margin greater than the last authorized for Owens Valley.

BACKGROUND

Decision (D.)92-03-093, dated March 31, 1992, authorized Class C and Class D water utilities to establish a memorandum account to track unanticipated costs of repairs and to notify the Division of Water and Audits (Division) when it has done so. On October 16, 2008, through Res. W-4715, the Commission granted Owens Valley authorization for the recovery of costs recorded in this memorandum account. Owens Valley informed the Division by advice letter dated November 9, 2009, that substantial unanticipated repairs of water mains, pumping equipment, and a well motor was necessary and that it needed a recovery for this expense, especially with the financial hardship the company is going through.

D.92-03-093 addresses repair costs of small water companies in the following ways:

“Leaks in underground pipes, failed water pumps and other unanticipated repair costs are the bane of small water companies. In their testimony, owners

of small water companies identified unanticipated repair costs as the single greatest obstacle in realizing rate of return” (Section 10, pg 24).

“Unanticipated costs, primarily for repair of leaks and other equipment, are the major reason that small water companies are unable to earn their authorized rate of return” (Finding of Fact, No19).

“A Class C or a Class D water utility is authorized to establish a memorandum account to track unanticipated costs of repairs necessary for a utility’s service to its customers and to notify the Water Utilities Branch (Branch) by letter when it has done so. A class C or Class D water utility is authorized to file by advice letter, or as part of a general rate case, to recover costs recorded in the memorandum account for unanticipated repair costs either in rates or in a one-year surcharge when the total cost exceeds 2% of the utility’s last adopted gross revenues. Costs already reflected in rates or recoverable through insurance or other means and costs that with reasonable diligence could have been avoided shall not be recoverable through the memorandum account” (Ordering Paragraph No.2),

Owens Valley presently provides service to approximately 111 residential flat rate customers in a service area located in an unincorporated community in Inyo County adjacent to the City of Bishop.

NOTICE AND PROTESTS

Notice of the requested recovery of the surcharge was sent out to customers on the 29th of December 2009.

DISCUSSION

The increase requested herein is for the purpose of recovering through a surcharge, on a dollar-for-dollar basis, expenses which Owens Valley incurred in unanticipated repairs to its water mains, pumping equipment and well. During a week in mid-August, 2009, Owens Valley had a major break in its water main line caused by overgrown tree roots, which caused a water leakage at the rate of about 200 gallons per minute. This created a one- day water outage while Owens Valley repaired that part of line, removed the tree and repaired parts of the well pump, and the damaged well motor, which got shorted during the incident.

The expense incurred for the well pump and motor were for the replacement of parts for the main, pump, motor and labor. As noted in D.92-03-093, unscheduled maintenance often is one of the most significant costs of the ownership of well pumps

and motors. The failure of water pumps and motors in this business is usually unpredictable in nature, so it could not be anticipated or predicted and as such planned for. Because these repair expenses were unanticipated, they are eligible for recovery through this Unanticipated Repair Cost Memorandum account (URCMA), sometimes, also called a UEMA.

Also, given the fact that this minor repair (which included replacement of pump cable, male adapter, flanges broken bolts and nuts) is for a small water company, it should be treated as an expense.

As noted, in D.92-03-093, the Commission authorized Class C and D water companies to establish a URCMA account by notifying the Water Utilities Branch (Branch) by letter when it has done so." Owens Valley previously notified the Branch that it had established this memorandum account when it filed the Advice Letter that resulted in Resolution W-4715, which was approved on October 16, 2008. The expenses at issue here were incurred thereafter in August 2009. However, because this URCMA account is not currently reflected in the preliminary statement of Owens Valley's tariff, as it should be, we will direct Owens Valley to file a tariff sheet, attached to this resolution to reflect this account in its tariff.

Using Owens Valley 2008 Annual Report, the Division determined that Owens Valley did not exceed its authorized rate of margin on a recorded basis. The increase will not result in a rate of margin greater than last authorized for Owens Valley.

These expenses, incurred for unanticipated repairs of water mains, pumping equipment and a well motor, were beyond Owens Valley's control, were unforeseeable and therefore not included in the company's last General Rate Case (GRC). Division has reviewed Owens Valley's last general rate increase authorized in May 21, 2009 (Res. W-4765) and finds that Owens Valley could not have received any revenue for the recently incurred expenses to repair and replace damaged main lines, pumping equipment, and a well motor, especially given the financial constraints the company is under. Nor were these expenses anticipated at the time of Owens Valley's last GRC. Division reviewed Owens Valley's expenditures recorded in its invoices and checks and found them reasonable.

The recommended surcharge is \$ 7.71 for each rate category for a period of twenty-four months. The surcharge rates are shown in Appendix A. At the Division's recommended rates shown in Appendix A, the monthly bill for a flat rate residential customer using a 5/8 x 3/4- inch meter, will increase from \$48.97 to \$56.68, which is \$7.71

or 15.74%¹. The Division recommends that Owens Valley be required to track revenues collected under the surcharge and refund any excess revenues collected to the ratepayers.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code Section 311 (g) (2), the otherwise 30-day period for public review and comment is being waived.

FINDINGS

1. Owens Valley had previously notified the Branch that it had established a URCMA memorandum account when it filed the Advice Letter that resulted in Resolution W-4715, which was approved on October 16, 2008.
2. In mid-August, 2009, Owens Valley had a major break in its water main line caused by overgrown tree roots, which caused a water leakage at the rate of about 200 gallons per minute. This created a one-day water outage while Owens Valley repaired that part of line, removed the tree and repaired parts of the well pump, and the damaged well motor, which got shorted during the incident.
3. The failure of water pumps and motors in this business are usually unpredictable in nature, so it could not have been anticipated or predicted and as such, planned for.
4. Owens Valley did not receive any revenue in its last GRC in May 21, 2009, for the recently incurred expenses to repair damaged main lines, pumping equipments and well.
5. This repair and replacement of parts in the water main, pump and motor should be treated as an expense.

¹ Thus the increase exceeds the 2% figure contained in Ordering Paragraph No. 2 of D.92-03-093 and therefore should be recovered by a surcharge.

6. The expenses incurred for the unexpected water main, pumping equipment and well motor repair are reasonable and are eligible for recovery through the URCMA mechanism.
7. The URCMA memorandum account is not currently reflected in the preliminary statement of Owens Valley's tariff.
8. Owens Valley should file a tariff sheet, attached to this resolution to reflect the account above in its tariff.
9. The \$7.71 monthly surcharge proposed by the Division of Water and Audits (as shown in Appendix A) is reasonable and should be adopted.
10. The Commission finds, after investigation by the Division of Water and Audits that the rate surcharge hereby authorized is justified and the resulting rates are just and reasonable.
11. This is an uncontested matter in which the resolution grants the relief requested, therefore, pursuant to Public Utilities Code Section § 311 (g) (2), no public comment period is required.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Owens Valley Water Company to incorporate the revised schedules attached to this resolution as Appendix A, and concurrently to cancel its presently effective rate Schedules Nos. 1, General Metered Service; 2R, Residential Flat Rate Service; and 4, Private Fire Protection Service. Its filing shall comply with General Order 96-B. The effective date of the revised schedules shall be five days after the date of its filing.
2. Owens Valley Water Company shall reflect in its preliminary statement the Unanticipated Repair Cost Memorandum Account by filing the attached tariff sheet.
3. Owens Valley Water Company shall track the revenue from the \$7.71 monthly surcharge in its Unanticipated Repair Cost Memorandum Account as required by Public Utilities Code § 792.5.

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on June 3, 2010; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

TIMOTHY ALAN SIMON

NANCY E. RYAN

Commissioners

APPENDIX A
Sheet 1

OWENS VALLEY WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Lazy A Estates and vicinity, adjacent to Highway 395, located approximately one and one-half miles north of Bishop, Inyo County.

RATES

Quantity Rate:

All Water used per 100 cu. ft.....	\$0.209
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Service Charge:

Per Meter
Per Month

For	5/8 x 3/4-inch meter	\$41.08
For	3/4-inch meter	\$61.61
For	1-inch meter	\$102.69
For	1-1/2-inch meter	\$205.38

The service charge is a readiness-to-serve charge which is applicable to metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
2. As authorized by the California Public Utilities Commission, a surcharge of \$7.71, for 24 intervals, beginning January 2010, to recover accumulated costs in Unanticipated Repair Cost Memorandum Account for repair of damaged main lines, pumping equipments and well. (N)
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(N)

APPENDIX A
Sheet 2

OWENS VALLEY WATER COMPANY

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Lazy A Estates and vicinity, adjacent to Highway 395, located approximately one and one-half miles north of Bishop, Inyo County.

RATES

	<u>Per Service Connection Per Month</u>
For a single-family residential unit including premises	\$48.97
For each additional single-family residential unit on the same premises and served from the same service connection	\$37.58

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. A meter may be installed at the option of the utility in which event service thereafter will be furnished under Schedule No. 1, General Metered Service.
4. As authorized by the California Public Utilities Commission, a surcharge of \$7.71, for 24 monthly billing intervals, beginning January 2010, to recover accumulated costs in the Unanticipated Repair Cost Memorandum Account for repair of damaged main lines, pumping equipments and well. (N)
|
|
(N)
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX A
Sheet 3

PRELIMINARY STATEMENT

- A. Cost resulting from unanticipated repairs are tracked in an Unanticipated Repair Cost Memorandum Account (URCMA) (N)
1. PURPOSE: The purpose of the URCMA is to recover costs due to unexpected, unforecasted, or unforeseen repairs between general rate cases, as well as making necessary repairs which have exceeded the allowable amount recovered through rates. The balance in the URCMA will be recovered in rates after CPUC review and audit of the reasonableness of the costs recorded in the URCMA. The authority to establish this account was granted in CPUC Decision 92-03-093 dated March 31, 1992, Ordering Paragraph 2.
- Should an unanticipated repair become necessary, Owens Valley Water Company will inform the Division of Water and Audits of the CPUC by letter, within 30 days after the event, that Owens Valley has started booking costs in the URCMA for the company.
2. ACCOUNTING PROCEDURE: Owens Valley Water Company will maintain a memorandum account for the discussed above. These costs must be additional or incremental to those allowed in Owens Valley Water Company's last general rate case proceeding. Owens Valley Water Company shall make entries to this account at the end of each month as follows:
- a. Debit entries equal to the incremental or additional amounts recorded in Owens Valley Water Company's expense accounts in which the above-referenced costs are recorded.
 - b. Credit entries to transfer all or a portion of the balance in this memorandum account to other adjustment clauses for future rate recovery, as may have been approved by the Commission.
 - c. Credit entries equal to the proceeds reimbursed by insurance covering such events.
 - d. Credit entries to reflect any revenues received that the Commission has directed to be recorded in this account. (N)

(END OF APPENDIX A)