

**WATER/RSK/PTL/MML**

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

**DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch**

**RESOLUTION W-4833  
July 29, 2010**

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

**(RES. W-4833), ALISAL WATER CORPORATION (Alco)-SALINAS DISTRICT. ORDER AUTHORIZING A SURCHARGE OF \$2.36 PER MONTH FOR THREE MONTHS FOR RECOVERY OF ITS ENGINEERING, LEGAL AND OTHER PROFESSIONAL FEES AND EXPENSES MEMORANDUM ACCOUNT FOR A TOTAL OF \$62,423.**

---

**SUMMARY**

By Advice Letter (AL) 136, filed on January 21, 2010, Alco, a class B water utility, seeks to collect \$77,922 through a surcharge of \$2.97 per month for three months to amortize its engineering, legal and other professional fees and expenses memorandum account (ELP memorandum account). This Resolution authorizes Alco to implement a surcharge of \$2.36 per connection over a period of three months to recover costs totaling \$60,082 booked to its ELP memorandum account and the \$2,341 associated City of Salinas Business Licensure Tax.

**BACKGROUND**

By AL 115-A, effective November 9, 2007, Alco established an ELP memorandum account to recover fees and expenses associated with the Water/Energy Nexus Demonstration Project initiated by the Division of Water and Audits (Division) in connection with the Water Action Plan. AL 115-A was approved by staff pursuant to G.O. 96-B, Water Industry Rule 7.3.2 and General Rule 7.6.1. The stated limit for the account is \$75,000. In Resolution No. W-4283, Alco was allowed recovery of City of Salinas Business Licensure Tax in addition to expenses incurred in it purchased power cost balancing account. Alco requests similar treatment for this account.

Alco's last general rate increase was approved by Res. W-4577 effective on December 25, 2005. Alco presently provides service to approximately 8,833 customers in a service area located in the Salinas District in Monterey County, California.

## **NOTICE AND PROTESTS**

Notice of the proposed rate increase was published in The Salinas Californian, a newspaper of general circulation, on the 30<sup>th</sup> of January, 2010, as evidenced by proof of publication provided to the Division by the utility. G.O 96-B, Water Industry Rule 3.1 allows such newspaper notice when the relief requested is an offset increase of less than ten percent of the last authorized revenue requirement. In accordance with Section 7.2 of G.O. 96-B, AL 136 was sent to Alco's service list, which includes adjacent utilities. A certificate of service and copy of the service list were included in AL 136.

A protest was received on the 10<sup>th</sup> of February 2010 from the Division of Ratepayers Advocates (DRA). DRA protested on the grounds that the relief sought in AL 136 was also being requested by Alco with Application (A.) 10-02-006. DRA also stated that a request for amortization of a memorandum account, outside a general rate case proceeding, for less than 2% of gross operating revenue is a violation of Paragraphs 38 and 39 of Standard Practice U-27-W. Alco's response to DRA's protest was received on the 18<sup>th</sup> of February 2010. Alco states that AL 136 was filed before the Application and explains that its request in the Application is provisional and only intended to recover expenses recorded in this memorandum account if some or all of the expenses are disallowed in the advice letter process. In regard to the 2% minimum, Alco argues that in Paragraph 38, 2% is meant as a trigger mandating a request for recovery from Class B, C, and D utilities and that Paragraph 39 only applies to Class A utilities, while Alco is a Class B utility. DWA agrees with Alco's arguments. Furthermore, DWA believes that amortizing this account before the conclusion of the GRC will lessen any rate shock that may be felt by the customers as a result of the GRC increase.

## **DISCUSSION**

The increase requested herein is for the purpose of recovering through a surcharge, on a dollar-for-dollar basis, fees and expenses associated with Alco's Water/Energy Nexus Demonstration Project. The Water/Energy Nexus Demonstration Project was initiated by the Division in connection with the Water Action Plan goal of increased energy efficiency. Energy efficiency projects have the potential to benefit water ratepayers through reduced embedded energy costs in water rates as well as providing societal benefits of reduced energy consumption. DWA believes that it is appropriate for water ratepayers to share the costs of such projects. This project was initiated well after Alco's last GRC and was therefore not anticipated in rates.

Alco reported completion of the project and substantial improvements in wire-to-water efficiencies<sup>1</sup> to the Commission in October 2009. <sup>2</sup>

Alco provided workpapers detailing the expenses booked to its ELP memorandum account along with all invoices. These expenses include contracting outside engineering firms to: conduct pump efficiency tests to establish baseline efficiencies for Alco's pumping equipment, conduct an energy audit to determine the best pump location, and develop software to operate one of Alco's pump facilities. Alco's expenses included a portion of payroll for a Controls Engineer during the period between December 2007 and March 2008 while he was assigned to develop the project. Alco's expenses also included legal expenses and miscellaneous expenses for conference calls and parking to attend Commission meetings. The Division has reviewed the \$75,000 in expenses booked to the ELP memorandum account and found them prudently incurred, reasonable, and for the purpose specified. None of the expenses booked to the account were incurred before November 9, 2007, the date the ELP account was established.

In AL 115-A, which established this memorandum account, Alco stated that it would track "expenses over and above the professional services already approved in rates of \$198,026." The Division noted that Alco's 2008 Annual Report reports professional expenses of only \$183,108. Alco has stated that this is exclusive of expenses booked to the ELP memorandum account. Alco also stated that it was an oversight not to reduce the balance in the ELP memorandum account by the \$14,918 difference between the amount allowed in rates for professional services and the actual 2008 expenditures. The Division has made this adjustment and recommends recovery of \$60,082 from the ELP memorandum account. Since the \$14,198 has already been recovered through rates, Alco should remove this amount from the account and should not be allowed to request recovery at a later date.

Because this project will result in lower energy costs and the lessons learned may result in additional energy savings if applied to other pumps and because the costs recorded have not otherwise been included in rates, it is reasonable for ratepayers to pay the incremental cost of \$60,082.

---

<sup>1</sup> Wire-to-water efficiency is a measure of the overall efficiency of a pumping plant and is the portion of the energy input to the motor that is imparted to the water by the pump.

<sup>2</sup> On October 16, 2009 Alco reported its findings to Commissioner Bohn, who reported them to the full Commission on October 29, 2009.

Alco is subject to a 3.75% City of Salinas Business Licensure Tax on collected revenues. In order for Alco to recover \$60,082 it will need to collect an addition \$2,341 to pay this tax, for a total of \$62,423.

To collect \$62,423 this balance is divided by the total number of service connections – 8,833 – and spread over a three-month period. The recommended surcharge is \$2.36 per connection per month for a three-month period. Because this surcharge simply passes through costs on a dollar-for-dollar basis, this surcharge will not result in a rate of return greater than the last authorized for Alco. Since the surcharge has changed Alco should file a supplement to its advice letter to correct the surcharge.

### **COMMENTS**

Public Utilities Code Section 311(g) (1) provides Resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, this draft Resolution was mailed to all parties for comments. No comments were received.

### **COMPLIANCE**

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

### **FINDINGS**

1. Alco duly established the engineering, legal and other professional fees and expenses memorandum account effective November 9, 2007 to cover the Water/Energy Nexus Project.
2. Expenses booked to the engineering, legal and other professional fees and expenses memorandum account are limited to \$75,000.
3. Alco reported completion of the project and substantial improvements in wire-to-water efficiencies to the Commission in October of 2009.
4. The expenses recorded in Alco's engineering, legal and other professional fees and expenses memorandum account were prudently incurred, reasonable, and for the specified purpose.
5. All of the expenses booked to the account were incurred from and after November 9, 2007, the date the account was established.

6. AL 115-A required that amounts booked to the engineering, legal and other professional fees and expenses memorandum account would be incremental to the \$198,026 already approved in rates for professional services.
7. Alco's 2008 Annual Report reports professional expenses of \$183,108.
8. The balance in the engineering, legal and other professional fees and expenses memorandum account should be reduced by \$14,918, the difference between the amount recovered in rates and the amount expended.
9. Because the project will result in lower energy costs and the costs of the project have not otherwise been recovered in rates, it is reasonable for ratepayers to pay the incremental cost of \$60,082.
10. In order to recover \$60,082, Alco will need to collect an additional \$2,341 to pay the City of Salinas's Business Licensure Tax.
11. Alco should be permitted to transfer the amounts in the engineering, legal and other professional fees and expenses memorandum account in the amount of \$60,082 and the associated tax of \$2,341 to a balancing account for recovery.
12. Alco should file an advice letter to recover the amounts in the balancing account and associated taxes by imposing a surcharge of \$2.36 per month per customer for three months.
13. This surcharge will not result in a rate of return greater than the last authorized for Alco in their last GRC.

**THEREFORE IT IS ORDERED THAT:**

1. Alisal Water Corporation - Salinas District shall remove \$14,918 from the engineering, legal and other professional fees and expenses memorandum account and shall not attempt recovery at a future date.
2. Alisal Water Corporation - Salinas District is authorized to transfer \$60,082, from the engineering, legal and other professional fees and expenses memorandum account to a balancing account for recovery.
3. Alisal Water Corporation - Salinas District is authorized to record an additional \$2,341 in the balancing account established above to pay the City of Salinas's Business Licensure Tax.

4. Alisal Water Corporation - Salinas District is authorized to file a supplemental advice letter to recover the amounts in the balancing account by imposing a surcharge of \$2.36 per customer per month for three months.
5. 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 July 29, 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