

WATER/ABJ/HJL:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4449
January 22, 2004**

RESOLUTION

(RES. W-4449), DEL ORO WATER COMPANY (DOWC) – COUNTRY ESTATES DISTRICT (CE), FERNDALE DISTRICT (FD), JOHNSON PARK DISTRICT (JP), LIME SADDLE DISTRICT (LS), AND MAGALIA DISTRICT (MD). ORDER AUTHORIZING A ONE-TIME SURCHARGE TO RECOVER AN INCREASE IN WATER TESTING COSTS PRODUCING A TOTAL INCREASE IN ANNUAL REVENUE FOR DOWC OF \$8,528 OR 0.87%.

SUMMARY

By Advice Letter No. 122, filed October 27, 2003, DOWC seeks to add a one-time surcharge to tariff schedules in six of its districts as follows: Schedules Nos. CE-1A, Annual General Metered Service; FD-1A, Annual General Metered Service; JP-1A, Annual General Metered Service; LS-1A, General Metered Service; MD-1A, General Metered Service, and PP-1A, Annual General Metered Service, resulting in a total increase in annual revenue of \$10,390 or 0.43%. The increases requested for each individual districts are as follows: CE - \$1,861.50 or 2.81%; FD - \$949.00 or 0.24%; JP - \$750.50 or 0.77%; LS - \$3,465.50 or 1.28%; and MD - \$1,501.00 or 0.77%, and PP - \$2,312 or .17%. The increase requested in each district is to recover water-testing costs incurred from January 1, 2003 through December 31, 2003 for the CE, JP, and MD; and from December 1, 2002 through December 31, 2003 for FD, LS, and PP. These costs are over and above the amounts allowed in each district's last general rate case. This resolution authorizes the increases requested in Schedules Nos. CE-1A, FD-1A, JP-1A, LS-1A, and MD-1A for a total of \$8,528 or 0.87% and rejects Schedule PP-1A (PP). The increases authorized will not result in a rate of return greater than what was last authorized for each individual district.

BACKGROUND

DOWC is a Class B water utility providing service to 6,569 customers in six districts in various areas of the State as follows: CE – 89 customers in a subdivision within the City of Bakersfield; FD – 739 customers in the City of Ferndale; JP – 308 customers in the unincorporated area of Johnson Park; LS – 454 customers at the southern boundary of the Town of Paradise and the entire former Lime Saddle Community Services District in Butte County; MD – 371 customers

in an area north of the Town of Paradise in Butte County; and PP - 4,608 customers in an area 6 miles north of the Town of Paradise.

DOWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to impose a one-time surcharge to recover a total of \$10,390 or 0.43% of revenue, for water testing costs incurred over the period from January 1, 2003 through December 31, 2003 in districts CE, JP, and MD, and for the period from December 1, 2002 through December 31, 2003 in districts FD, LS, and PP. The surcharges requested and the water testing costs to be recovered for each district are as follows: CE - \$20.92 collected over three billing cycles at \$6.97, \$6.97; and \$6.98, respectively to recover \$1,861.50; FD - \$1.29 collected in one billing cycle to recover \$949.00; JP - \$2.44 collected in one billing to recover \$750.50; LS - \$7.64 collected over two billing cycles at \$3.82 and \$3.82 respectively to recover \$3,465.50; MD - \$2.84 collected in one billing cycle to recover \$1,501.00; and PP-\$0.51 collected in one billing cycle to recover \$2,312.00.

The last general rate increases (GRC) authorized for each district are as follows:

	<u>Authorized</u>	<u>Res. No.</u>	<u>Date</u>	<u>Return</u>
County Estates District	\$29,788 or 82.9%	W-4301	10/25/01	13.00 %
Ferndale District	\$ 1,095 or 0.28%	W-4360	11/21/02	9.85%
Johnson Park	\$20,799 or 26.17%	W-4330	4/22/02	9.12%
Lime Saddle District	\$25,387 or 12.28%	W-4302	10/25/01	9.97%
Magalia District	\$ 3,614 or 4.48%	W-4048	2/04/98	20.00%*
Paradise Pines District	\$121,745 or 10.51%	W-4333	6/6/02	9.97%

* - operating ratio

DISCUSSION

Res. W-4013, dated December 20, 1996, renewed by Res. W-4327, dated March 6, 2002, authorized all Class B, C, and D water utilities to establish water quality memorandum accounts (WQMA) for recording expenses resulting from drinking water regulations, including water sampling, testing, reporting, and treatment 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. WQMA recovery requires a resolution.

The Water Division (Division) conducted earnings tests on an actual basis for recorded year 2002 for each district. All districts except PP had earned less than their respective authorized rates of return or operating ratios. The Division further determined that PP earned in excess of its last authorized rate of return including the additional water testing expenses, therefore, it does not qualify for the surcharge increase pursuant to the requirements of Commission Decision 03-06-072. In view of this, the Water Division recommends that DOWC be authorized to assess a one-time surcharge per customer for the five districts as follows: CE - \$20.92 collected over three billing cycles at \$6.97, \$6.97, and \$6.98 respectively; FD - \$1.29 collected in one billing

cycle; JP - \$2.44 collected in one billing; LS - \$7.64 collected over two billing cycles at \$3.82 and \$3.82 respectively; and MD - \$2.84 collected in one billing cycle. Service is satisfactory. DOWC is in compliance with all Commission orders.

NOTICE AND PROTESTS

Notices of proposed rate increases were mailed to all customers of record as follows:

Country Estates District	October 31, 2003
Ferndale District	October 30, 2003
Johnson Park District	October 28, 2003
Lime Saddle District	October 25, 2003
Magalia District	October 25, 2003
Paradise Pines District	October 25, 2003

There was one protest concerning the proposed increase in the Country Estates District to which the Division has responded.

FINDINGS

1. Res. W-4013, dated December 20, 1996, renewed by Res. W-4327, dated March 6, 2002, authorized all Class B, C, and D water utilities to establish water quality memorandum accounts (WQMA) for recording expenses resulting from drinking water regulations, including water sampling, testing, reporting, and treatment costs not presently included in rates.
2. 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.
3. WQMA recovery requires a resolution.
4. The surcharges authorized herein would allow DOWC to recover WQMA balances for the period January 1, 2003 through December 31, 2003 for the Country Estates, Johnson Park, and Magalia Districts, and December 1, 2002 through December 31, 2003 for the Ferndale and Lime Saddle Districts for a total of \$8,528 or 0.87%.
5. All districts except Paradise Pines earned less than their respective authorized rates of return or operating ratios.
6. This is an uncontested matter subject to the public notice and comment exclusion provided by Public Utilities Code Section 311(g)(3).
7. The Commission finds, after investigation by the Water Division, that the changes hereby authorized are justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Del Oro Water Company, Inc. is authorized, five days after the effective date herein, to make effective revised Schedules Nos. CE-1A, Annual General Metered Service; FD-1A, Annual General Metered Service; JP-1A, Annual General Metered Service; LS-1A, General Metered Service; and MD-1A, General Metered Service, attached to Advice Letter No. 122, and to cancel the corresponding presently effective rate schedules. Schedule No. PP-1A, Annual General Metered Service, attached to Advice Letter No. 122 is rejected.
2. Del Oro Water Company, Inc. 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 January 22, 2004; the following commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD

LORETTA M. LYNCH

GEOFFREY F. BROWN

SUSAN P. KENNEDY

Commissioners

I will file a written concurrence.

/s/ SUSAN P. KENNEDY
Commissioner

Commissioner Susan P. Kennedy, concurring:

In the matter before us, Del Oro has requested to recover costs it incurred for water-quality testing pursuant to public health regulations. The Commission has historically established memorandum accounts to permit utilities to record and recover reasonable expenses resulting from drinking water regulations, including sampling, testing, reporting, and treatment costs not presently included in rates.

No member of this Commission would question that the public interest is to ensure full recovery of these costs. It's become a national practice with investor-owned water utilities, with many states actually strengthening their recovery provisions in recent years due to significantly more stringent water quality standards and security concerns after Sept. 11th. Ensuring full recovery of these costs removes any economic incentive for a utility to take a short cut on water quality testing.

California, however, has gone in the opposite direction. With a decision early in 2003 (D.03-06-072) the Commission took the "earnings test" and expanded it to cover all water balancing and memorandum accounts, including those for water quality testing.

So in the case before us, in order to recover their water quality testing expenses, Del Oro had to first pass an "earnings test." As I understand it, the purpose of applying the earnings test was to prevent a company from exceeding its authorized earnings. But in the real world, it works far differently than advertised.

When you look at Del Oro's earnings across all 6 districts, the company is under-earning by about \$12,000. In one of the six districts, however, the company is over-earning.

As a result, in that district, the Commission rejects recovery \$2,312 in water quality testing costs.

The rejection of those testing costs *increases* the company's under-earnings from \$12,035 to \$14,347.

Rather than working to prevent a "double recovery," as advocates of the earnings test argue, every dollar Del Oro spent on water-quality testing in that district became a penalty to the whole company.

Del Oro Water Company Kennedy Concurrence
January 22, 2004

Since the CPUC expanded the application of earnings tests, the financial community has placed California Water Service on review for a possible downgrade and adopted a “negative outlook” for Southern California Water Company.

The rating agencies have a negative outlook on all investor-owned water companies, especially small ones that don’t have access to a lot of capital, primarily because of the investments they have to make to meet increased water quality standards and the difficulty these companies have in getting recovery of those costs from state commissions. California has made the situation worse.

This was not the way the earnings test was described to me when I voted for that change in 2003.

I have to vote for this because otherwise Del Oro’s situation will be made worse, and the impact may be on water quality for its customers.

But I strongly believe this commission should revisit and change this policy in the near future.

/s/SUSAN P. KENNEDY

Susan P. Kennedy

January 22, 2004