

WATER/RSK/JB5/KKE/jj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

**RESOLUTION NO. W-4703
September 18, 2008**

R E S O L U T I O N

**(RES. W-4703), CALIFORNIA WATER SERVICE (CWS),
KERN VALLEY RIVER DISTRICT (KVRD). ORDER AUTHORIZING
A 27.45% RATEBASE OFFSET INCREASE OF \$977,520 AND A RATE
SUPPORT FUND (RSF) SURCREDIT OF \$1,034,160 DURING THE
AUTHORITY GIVEN IN DECISION (D.) 06-08-011.**

SUMMARY

By Advice Letter (AL) No. 1862, filed June 9, 2008, CWS requests a capital improvement surcharge and a rate assistance surcredit be simultaneously implemented in the KVRD as required by D.06-08-011. The ratebase offset surcharge recovers completed infrastructure improvements and the surcredit implements the general support RSF. The smallest meter in the district (98.3% of the customers) will see a net monthly reduction in their bill of \$1.96. The authority for this action expires with the next general rate case (GRC) cycle, July 2009.

Implementation of AL No. 1866 and AL No. 1872 are also reflected in the rates shown in Appendix A. Properly categorized as Tier 1 advice letters requesting filing dates as the effective date, AL No. 1866 and AL No. 1872, were independently approved.

For conformance and tariff administration, AL No. 1866 and AL No. 1872, which were filed subsequent to AL No. 1862 and that have been approved, are incorporated within the AL No. 1862 tariff sheets to streamline the process of recording in CWS's KVRD tariff books the three rate adjustments associated with AL No. 1862, AL No. 1866 and AL No. 1872.

BACKGROUND

CWS is a Class A water utility. CWS has requested authority under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(8), and Section 454 of the Public Utilities Code to increase its water rates by \$972,165 for the capped costs of the water supply improvements and a general RSF support surcredit of \$1,034,040.

CWS' GRC proceeding, Application (A.) 05-08-006 et al. filed August 8, 2005, resulted in D.06-08-011, and dated August 24, 2006. One element of the decision is approval of the Rate Base Equalization Account (RBEA) settlement. The RBEA created the RSF, a subsidy mechanism for eligible districts.

The KRVD infrastructure improvements, "Arsenic Compliance and Water Supply Reliability" projects, comply with new arsenic standards.

Authorization granted in D.06-08-011 for the RSF and recovery of the infrastructure improvements expires with the next test year, July 1, 2009. Rate recovery going forward for the RSF and each infrastructure project will be determined at that time.

As a Tier 3 advice letter filing under General Order (G.O.) 96-B, AL 1862 requires a resolution.

NOTICES AND PROTESTS

In accordance with GO 96-B, General Rule 4.3 and 7.2 and Water Industry Rule 4.1, the original advice letter was sent to nearby municipalities and water utilities or interested parties having requested such notification. No protests have been received.

DISCUSSION

Section six of the RBEA settlement requires "the RSF support...be implemented at the same time that the rate increase associated with the infrastructure improvements to comply with the new arsenic standard become effective." The RSF surcredits each Kern River Valley customer twenty dollars per month during the current GRC cycle. Based on 4,309 customers, the total annual cost to CWS's customers of the RSF surcredit is \$1,034,160.

The RSF subsidizes eligible districts where standard rate making procedures skew rates outside affordability ranges. To determine affordability ranges, CWS performed a district level analysis with the following criteria: rate base per customer, district income levels, usage levels, availability of public loan funds, the average bill and extraordinary water quality problems. Based on the interaction of the above criteria, if standard rate design procedures produced utility bills deemed unaffordable, the district became eligible for the RSF surcredit.

The KRVD is eligible for the RSF.

Section eight of the RBEA settlement requires the RSF surcredits and ratebase offset surcharges be booked into a single balancing account. If the balancing account is over-

or under-collected by 10% or more of the total annual revenues for the district, CWS must file an advice letter to adjust the surcharge. The RSF benefit must be separately identified as an offset to the tariff rates on the customer's bills.

Ordering Paragraph seven of D.06-08-011 states CWS may begin recovering in rates the revenue required for the authorized improvements upon their completion and placement into service. The "Arsenic Compliance and Water Supply Reliability" improvements (Projects Nos. 12299, 12300 and 12301) cost CWS \$7,092,721. The expenses for these projects were capped in D.06-08-011 at \$5,510,000.

The utility's filing shows the Arsenic Compliance and Water Supply Reliability improvements are used and useful. The authorized ratebase offset revenue increase for the completed projects is \$977,520 or a district-wide increase of 27.45%.

A net monthly surcharge to Cost of Service rates for the 5/8 x 3/4-sized meter (98.3% of all KVRD customers) will increase from \$25.60 to \$43.64, an increase of \$18.04 or a 70.59% increase. The net effect of the \$20.00 monthly RSF surcredit will see the \$18.04 increase become a \$1.96 reduction to rates.

While rate reductions do not require a resolution, AL No. 1862 is both a surcharge and surcredit. The net interaction of the surcredit and surcharge will increase rates for all meters greater than the 5/8 x 3/4-sized meter. For example, a one-inch meter customer will see a net increase of \$22.27 after the \$20 surcredit adjustment from the RSF.

Staff discovered spreadsheet errors in the following areas: (1) the revenue requirement for the ratebase offset, (2) the number of connections used to determine the RSF revenue requirement and (3) the rate design did not produce exact revenue requirements.

The advice letter requested an offset revenue requirement of \$972,165 whereas the correct amount is \$977,520.

The annual cost of the RSF should use 4,309 connections instead of the utility submitted 4,308.5 which slightly changes the RSF cost from \$1,034,040 to \$1,034,160.

The spreadsheet errors listed above affect the rates approved in AL No. 1866.

In addition to the staff-discovered spreadsheet errors impacting current KVRD rates, implementation of AL No. 1862 rates does not properly account for the revenues currently collected under approved AL No. 1866 and AL No. 1872.

According to General Order (G.O.) 96-B, CWS properly submitted AL No. 1866 and AL No. 1872 as Tier 1 filings. A Tier 1 filing considered "effective pending disposition" refers to a procedure under General Rules 7.5.3 and 8.2.3 whereby the utility submitting an advice letter implements the actions or tariff changes set forth in the advice letter prior to its disposition.

For AL No. 1866, the date of filing is the effective date. The approved rate change in AL No. 1866 is a compliance filing for an offset rate increase for adopted General Office allocations per Decision (D) 08-07-008. The revenue associated with AL No. 1866 is \$246,900.

The filing of AL No. 1866 occurred on July 15, 2008 which is five weeks after the filing of AL No. 1862 on June 9, 2008. The company filed AL No. 1866 assuming the resolution for AL No. 1862 had been granted as filed.

Submitted effective upon filing, AL No. 1872 became effective on August 4, 2008. The filing of AL No. 1872 addresses a surcharge rate decrease for only two service areas within KRVD: Schedule No. KRV-BD -1, the Bodfish Water Service Area and Schedule No. KRV-SQ -1, the Squirrel Mountain Water Service Area. The surcharge is for repayment of State Drinking Water Bond Act (SDWBA) loans. The decrease lowers the monthly surcharge for 5/8-inch metered customers in Bodfish from \$2.58 to \$0.97 and in the Squirrel Mountain area from \$9.32 to \$5.22. The reduction is caused by excess balances in the fiduciary account associated with SDWBA loans.

Due to the errors discovered in AL No. 1862, the timing issues surrounding implementation of AL No. 1866, and the delay of this resolution to resolve these issues, the proper rates implemented in this resolution include: 1) the revenues associated with AL No. 1866, 2) the correct revenues required in AL No. 1862 and 3) a surcharge rate decrease implemented by AL No. 1872.

Rate design for these three advice letters follows.

For AL No. 1862, the rate increase revenue requirement is \$977,520 and is allocated 100% in the cost of service charge with the effective filing date according to this resolution.

For AL No. 1866, the revenue increase is 6.8% or \$246,900, and is allocated 50% to the quantity rate and 50% to cost of service charge with an effective date of July 11, 2008.

For AL No. 1872 the reduction to the SDWBA surcharges in the Bodfish service area is \$8,963 and for the Squirrel Mountain area the reduction is \$26,553 with an effective date of August 4, 2008.

COMPLIANCE

The utility has been filing annual reports as required. CWS has no outstanding compliance orders.

COMMENTS

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

FINDINGS AND CONCLUSIONS

1. The Rate Base Equalization Account approved in the California Water Service Company's general rate case, Decision 06-08-011, created a subsidy mechanism known as the Rate Support Fund (RSF).
2. The Rate Support Fund subsidizes each Kern River Valley District connection \$20.00 per month as a surcredit for an annual cost of \$1,034,160 to support 4,309 of the District's ratepayers.
3. Decision 06-08-011 requires the RSF surcredits and ratebase offset surcharges be booked into a single balancing account for each eligible district.
4. Authorized by Decision 06-08-011, the Kern River Valley District "Arsenic Compliance and Water Supply Reliability" infrastructure improvements (Projects No. 12299, 12300, and 12301) comply with new arsenic standards.
5. Capped at \$5,510,000 by Decision 06-08-011, the Arsenic Compliance and Water Supply Reliability project's actual costs were \$7,092,721.
6. The Arsenic Compliance and Water Supply Reliability improvement ratebase offset increases the Kern River Valley District revenue by \$977,520.
7. Decision 06-08-011 requires implementation of the Rate Support Fund surcredit to coincide with the revenue recovery surcharge for the used and useful Arsenic Compliance and Water Supply Reliability improvements.
8. The Kern River Valley District general Rate Support Fund results in a district wide surcredit of \$1,034,160.
9. The net effect to KRVD customers of the Rate Support Fund surcredit combined with the Arsenic Compliance and Water Supply Reliability surcharge is a \$1.96 monthly reduction for the 5/8 x 3/4-inch meter or 98.3 percent of the connections.

10. All connections larger than the 5/8 x 3/4-inch meter or 1.7% of the ratepayers will see an increase to rates.
11. Authorization granted in Decision 06-08-011 for the Rate Support Fund and infrastructure projects expire with the next test year, July 1, 2009. Rate recovery going forward for the Rate Support Fund and each infrastructure project will be determined at that time.
12. Staff discovered spreadsheet errors with which the utility agreed.
13. The advice letter should be approved with the amended figures including the rates associated with AL Nos. 1866 and 1872.

THEREFORE IT IS ORDERED THAT:

1. California Water Service Company is authorized to incorporate the revised rate schedules KRV-AR-1, General Metered Service, Arden; KRV-BD-1, General Metered Service, Bodfish; KRV-KD-1, General Metered Service, Kernville; KRV-LK-1, General Metered Service, Lakeland; KRV-SQ-1, General Metered Service, Squirrel; and KRV-AO-1, General Metered Service, All other, as attached to this resolution in Appendix A.
2. 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 18, 2008; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

APPENDIX A

Schedule No. KRV-AO-1

Kern River Valley Tariff Area
(Mountain Shadows, Onyx, South Lake, Split Mountain Water Service Area)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service without a specific SDWBA surcharge.

TERRITORY

The unincorporated area known as Mountain Shadows, Subdivision of Wofford Heights, approximately 4 miles southwest of the community of Kernville, Kern County. Onyx and vicinity, located approximately five miles northwest of Weldon, Kern County. Southlake and vicinity, located immediately south of State Highway 178, approximately four miles west of Weldon, Kern County. Tracts No. 3141, 3491 and along Evans Road between those tracts, located near Wofford Heights, Kern County.

RATES

Quantity Rates:

All water delivered, per 100 cu. ft. 4.0091 (I)

Service Charge:

Per Meter Per Month

For	5/8 x 3/4 - inch meter	45.78	(I)
For	3/4 - inch meter	68.66	
For	1 - inch meter	107.24	
For	1-1/2 - inch meter.....	180.29	
For	2 - inch meter	366.21	
For	3 - inch meter	627.10	
For	4 - inch meter	1,144.39	(I)

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fees set forth on Schedule UF.
2. All bills are subject to any applicable surcharges and surcredits on Schedules RSF and LIRA-SC. (c)
3. Qualifying low-income individually metered and flat rate residential customers, non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers are eligible for credits as shown on Schedule LIRA.
4. Due to the delay in implementing D.06-08-011 from July 20, 2006 to August 29, 2006, a surcharge of \$0.0762 per 100 cu. ft. of water used is to be applied to the quantity rates 12 months from September 29, 2007, the effective date of Advice Letter No. 1833.

5. All bills are subject to the surcharges set forth on Schedule PB.

Schedule No. KRV-AR -1

Kern River Valley Tariff Area
 (Arden Water Service Area)

RESIDENTIAL METERED SERVICE

APPLICABILITY

Applicable to all residential metered water service.

TERRITORY

Wofford Heights and vicinity, located approximately two miles south of Kernville in Kern County.

RATES

Quantity Rates:			SDWBA <u>Surcharge</u>
All water delivered, per 100 cu. ft.	\$4.0091	(I)	\$0.12
Service Charge:			SDWBA Monthly <u>Surcharge</u>
	<u>Per Meter Per Month</u>		
For 5/8 x 3/4 - inch meter	45.78	(I)	\$0.75
For 3/4 - inch meter	68.66		0.80
For 1 - inch meter.....	107.24		1.10
For 1-1/2 - inch meter.....	180.29		1.55
For 2 - inch meter.....	366.21		2.00
For 3 - inch meter.....	627.10		3.75
For 4 - inch meter.....	1,144.39	(I)	5.10

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

SPECIAL CONDITIONS

1. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California SDWBA loan as authorized by Decision 90267.
2. All bills are subject to the reimbursement fees set forth on Schedule UF.
3. All bills are subject to any applicable surcharges and surcredits on Schedules RSF and LIRA-SC. (c)
4. Qualifying low-income individually metered and flat rate residential customers, non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers are eligible for credits as shown on Schedule LIRA.
5. Due to the delay in implementing D.06-08-011 from July 20, 2006 to August 29, 2006, a surcharge of \$0.0762 per 100 cu. ft. of water used is to be applied to the quantity rates 12 months from September 29, 2007, the effective date of Advice Letter No. 1833.
6. All bills are subject to the surcharges set forth on Schedule PB.

Schedule No. KRV-BD -1

Kern River Valley Tariff Area
 (Bodfish Water Service Area)

RESIDENTIAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Bodfish and vicinity and a non-continuous area known as Canyon Heights, Kern County.

RATES

Quantity Rates:

All water delivered, per 100 cu. ft. \$4.0091 (I)

Service Charge:

		<u>Per Meter Per Month</u>	SDWBA Monthly <u>Surcharge</u>	
For	5/8 x 3/4 - inch meter	45.78	\$0.97	(R)
For	3/4 - inch meter	68.66	1.45	
For	1 - inch meter.....	107.24	2.42	
For	1-1/2 - inch meter.....	180.29	4.83	
For	2 - inch meter.....	366.21	7.74	(R)
For	3 - inch meter.....	627.10		
For	4 - inch meter.....	1,144.39		(I)

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

SPECIAL CONDITIONS

1. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California SDWBA loan as authorized by Decision 90267.
2. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
3. All bills are subject to the reimbursement fees set forth on Schedule UF.
4. All bills are subject to any applicable surcharges and surcredits on Schedules RSF and LIRA-SC. (c)
5. Qualifying low-income individually metered and flat rate residential customers, non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers are eligible for credits as shown on Schedule LIRA.
6. Due to the delay in implementing D.06-08-011 from July 20, 2006 to August 29, 2006, a surcharge of \$0.0762 per 100 cu. ft. of water used is to be applied to the quantity rates 12 months from September 29, 2007, the effective date of Advice Letter No. 1833.

7. All bills are subject to the surcharges set forth on Schedule PB.

Schedule No. KRV-KD -1

Kern River Valley Tariff Area
 (Kernville Water Service Area)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The community of Kernville and vicinity, Kern County.

RATES

Quantity Rates:

All water delivered, per 100 cu. ft. \$4.0091 (I)

Service Charge:

	<u>Per Meter Per Month</u>		<u>SDWBA Monthly Surcharge</u>
For 5/8 x 3/4 - inch meter	45.78	(I)	\$3.90
For 3/4 - inch meter	68.66		5.85
For 1 - inch meter.....	107.24		9.75
For 1-1/2 - inch meter.....	180.29		19.50
For 2 - inch meter.....	366.21		31.20
For 3 - inch meter.....	627.10		58.80
For 4 - inch meter.....	1,144.39	(I)	97.50

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

SPECIAL CONDITIONS

1. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California SDWBA loan as authorized by Decision 90267.
2. All bills are subject to the reimbursement fees set forth on Schedule UF.
3. All bills are subject to any applicable surcharges and surcredits on Schedules RSF and LIRA-SC. (c)
4. Qualifying low-income individually metered and flat rate residential customers, non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers are eligible for credits as shown on Schedule LIRA.
5. Due to the delay in implementing D.06-08-011 from July 20, 2006 to August 29, 2006, a surcharge of \$0.0762 per 100 cu. ft. of water used is to be applied to the quantity rates 12 months from September 29, 2007, the effective date of Advice Letter No. 1833.
6. All bills are subject to the surcharges set forth on Schedule PB.

Schedule No. KRV-LK -1

Kern River Valley Tariff Area
 (Lakeland Water Service Area)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Lakeland, Tracts No. 2412, 3035, 3036, 3108 and vicinity, located northeast of the community of Lake Isabella, Kern County.

RATES

Quantity Rates:

All water delivered, per 100 cu. ft. \$4.0091 (I)

Service Charge:

		<u>Per Meter Per Month</u>	<u>SDWBA Monthly Surcharge</u>
For	5/8 x 3/4 - inch meter	45.78 (I)	\$9.85
For	3/4 - inch meter	68.66	14.75
For	1 - inch meter.....	107.24	24.75
For	1-1/2 - inch meter.....	180.29	49.25
For	2 - inch meter.....	366.21	79.00
For	3 - inch meter.....	627.10	148.00
For	4 - inch meter.....	1,144.39 (I)	246.00

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

SPECIAL CONDITIONS

1. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California SDWBA loan as authorized by Decision 90267.
2. All bills are subject to the reimbursement fees set forth on Schedule UF.
3. All bills are subject to any applicable surcharges and surcredits on Schedules RSF and LIRA-SC. (c)
4. Qualifying low-income individually metered and flat rate residential customers, non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers are eligible for credits as shown on Schedule LIRA.
5. Due to the delay in implementing D.06-08-011 from July 20, 2006 to August 29, 2006, a surcharge of \$0.0762 per 100 cu. ft. of water used is to be applied to the quantity rates 12 months from September 29, 2007, the effective date of Advice Letter No. 1833.
6. All bills are subject to the surcharges set forth on Schedule PB.

Schedule No. KRV-SQ -1

Kern River Valley Tariff Area
 (Squirrel Mountain Water Service Area)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Squirrel Mountain and vicinity, located in the unincorporated area south of Mountain Mesa on State Highway 178, five miles east of Lake Isabella in Kern County.

RATES

Quantity Rates:

All water delivered, per 100 cu. ft. \$4.0091 (I)

Service Charge:

		<u>Per Meter Per Month</u>	<u>SDWBA Monthly Surcharge</u>	
For	5/8 x 3/4 - inch meter	45.78	(I)	\$5.22 (R)
For	3/4 - inch meter	68.66		7.84
For	1 - inch meter.....	107.24		13.06
For	1-1/2 - inch meter.....	180.29		26.12
For	2 - inch meter.....	366.21		41.80
For	3 - inch meter.....	627.10		78.37
For	4 - inch meter.....	1,144.39	(I)	130.62 (R)

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

SPECIAL CONDITIONS

1. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California SDWBA loan as authorized by Decision 90267.
2. All bills are subject to the reimbursement fees set forth on Schedule UF.
3. All bills are subject to any applicable surcharges and surcredits on Schedules RSF and LIRA-SC. (c)
4. Qualifying low-income individually metered and flat rate residential customers, non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers are eligible for credits as shown on Schedule LIRA.
5. Due to the delay in implementing D.06-08-011 from July 20, 2006 to August 29, 2006, a surcharge of \$0.0762 per 100 cu. ft. of water used is to be applied to the quantity rates 12 months from September 29, 2007, the effective date of Advice Letter No. 1833.
6. All bills are subject to the surcharges set forth on Schedule PB.

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CWS/AL 1862/RSK/JB5/KKE/jlj

September 18, 2008