

CALIFORNIA PUBLIC UTILITIES COMMISSION
Division of Water and Audits

SERVICE IMPROVEMENT PLAN REQUIREMENTS

Standard Practice U-36-W

San Francisco, California
July 2007

A – PURPOSE AND SCOPE

1. On June 15, 1983 the Commission adopted a service improvement policy requiring water utilities to notify the public when proposed plant additions exceeded a certain percent of existing rate base. This information was sent to all regulated water companies by letter on November 30, 1983.¹ The policy required that the notice identify the intended system improvements, the problems they will help solve, the estimated total costs, the probable effect on rates and the likely effect on service if the improvements were not made. The notice should also identify alternatives and include some explanation of the choice made.
2. The utility was constrained to waiting for a minimum of 40 days before commencing construction.
3. If there turned out to be significant customer concern, the policy included the requirement for a public meeting and potentially a vote on whether the improvements should be made.

¹ Letter from Wes Franklin, Chief of the Hydraulic Branch to Class A, B, C and D water utilities, November 30, 1983, Doc. Mgmt. #264643, see also Doc. Mgmt. #281583.

SERVICE IMPROVEMENT POLICY

A. CUSTOMER NOTICE OF CAPITAL IMPROVEMENTS BETWEEN RATE CASES

(These rules apply to capital improvements, not maintenance.)

I WHEN REQUIRED

a. Class A & B

If the total improvements for the next twelve months will increase rate base (as shown in the last Annual Report or more recent rate decision) by more than 10%, the company must notice the customers and the Staff.

b. Class C & D

If the total improvements for the next twelve months will increase rate base (as shown in the last Annual Report or more recent rate decision) by more than 25%, there must be notice to the customers and the Staff.

c. Exceptions

This notice requirement shall not apply to emergency repairs or other conditions, such as system failure, water outage, or sudden contamination.

II. MANNER OF THE NOTICE

The notice shall be by bill insert or by a separate mailing. It must be sent to the same address and person responsible for payment of the water bill. A copy of the notice must also be sent to staff at the same time.

III. CONTENTS OF THE NOTICE

- a. The notice must identify the intended system improvements, the problems they will help solve, the estimated total cost, the effect on customer rates (increase of \$_____ and _____%), and the likely result if improvements are not made.
- b. The notice must ask the rate-payers to write to the utility within 20 days if they wish to comment on the proposal. Any comments must be sent to staff by the utility. If no comments are received, the utility must notify staff of this fact.

IV. STAFF ANALYSIS

Staff will determine that the proposed improvements represent the appropriate means to solve the problem addressed, or if there is a less costly alternative which would meet the appropriate level of service.

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V. CUSTOMER COMMENTS

The utility shall not proceed with the improvements for 20 days after mailing the customer's reaction to the Staff. This will permit Staff review of customer's comments. If there is substantial customer resistance Staff will schedule a public meeting in or near the utility service area so that the utility can further explain the need for the improvements. Staff will present any alternatives to provide the appropriate level of service. The utility shall be responsible for arranging for the meeting place and notification of the meeting to all customers.

VI. CUSTOMER REJECTION

If the consensus of customer reaction is a desire to retain poor quality (but not unsafe) service rather than pay for improvements, the utility is on notice that the proposed improvements may not be permitted into ratebase. In this instance a formal application should be filed seeking Commission authorization for the disputed improvements.

B. DEVELOPMENT OF UTILITY OBLIGATIONS TO CORRECT SERVICE PROBLEMS IDENTIFIED DURING GENERAL RATE CASE PROCEEDINGS

I. ADVICE LETTER

- a. The service improvement need is identified by utility or staff.
- b. The proposal for corrections (utility's or staff's) is reviewed for:
 1. Alternative solutions
 2. Cost
 3. Financing possibilities
 4. Impact on rates
 5. Schedule for making improvements
- c. Staff sends a letter of confirmation to the utility which includes:
 1. A description of staff recommendations for improvements including a proposed schedule for completion.
 2. A statement of Commission compliance policy, including potential penalties for non-compliance and the utility obligation to meet requirements accepted by the filing of tariffs.
 3. A statement of the utility right to request a hearing if it cannot meet the construction deadline. This letter request is to be filed for staff consideration six weeks before the final construction deadline. If hearing is granted the reasonableness of ordered improvements shall not be at issue and the burden

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would be on the utility to convince the Commission that the increased rates should not be cancelled.

4. A request for the utility's acknowledgement of staff's recommendations and Commission policy.
- d. Upon receipt of the response from the utility staff determines the need for a hearing (if the utility disagrees with the proposed plan or with the Commission compliance policy).
- e. The customers are notified, via customer letter, of the proposed improvements (if threshold test for ratebase impact met), including a description of the problem, the proposed plan, its probable cost and impact on rates.
- f. Staff analyzed the customer response to determine if a public meeting/hearing is indicated.

II. APPLICATION

- a. Staff or the utility identifies service improvement need and discusses this at customer meeting if issues are well enough developed.
- b. Staff reviews proposal for improvements, including:
 1. Alternative
 2. Cost
 3. Impact on rates
- c. Customers are notified by letter from the utility (if ratebase threshold test met), which provides a brief description of the source problem, the improvement plan, its probable cost and impact on rates. They are informed of their right to participate in upcoming hearing and are directed to send responses to the utility.
- d. The utility notifies staff of customer reaction.
- e. Staff testimony at the hearing must include recommendations regarding the improvement plan, an estimate of the cost and rate effects of the proposal, benchmark construction goals and a reporting plan. It also includes the potential penalties to be applied in the event of utility non-compliance with the Commission order. It states the utility right to request a hearing if it believes, six weeks before the final construction date, that it cannot meet the deadline. Staff must state that if a hearing is granted, the reasonableness of the service improvement order shall not be at issue and that the burden is on utility to convince Commission that increased rates should not be cancelled.

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C. IMPLEMENTATION OF POLICY IN DECISIONS AND RESOLUTIONS

1. Findings of Fact

- a. Include finding of the need for and feasibility of proposed improvements or other actions.
- b. The utility shall notify staff of completion date of each phase of project.

2. Ordering Paragraphs

- a. Order utility to make specific improvements or take other actions to correct service problems.
- b. Specify timeframe for implementation of plan, including (if relevant) breakdown into verifiable segments to which utility must conform.
- c. State that filing of rate increase tariffs is acceptance by utility of its obligation to meet requirements.
- d. Direct utility to notify staff of completion date of each phase of project.
- e. Make all or part of the rate increase conditioned upon utility completion of ordered improvements, or other actions, on time.
 - Any part of the rate increase earmarked to finance a specific improvement project will be subject to both cancellation and refund.
 - The portion of a general rate increase providing the return on equity will be reduced to zero.
- f. In addition may authorize a reduced rate of return for a large utility having an outstanding Commission order for service improvements, to be effective until it complies.
- g. Make step rates conditioned upon compliance with the order.
- h. May authorize a ratebase offset by advice letter for specific improvement item(s) not included in adopted results.
- i. Contain an appendix showing the effective date of the reduced rates.