



January 22, 2019

Proposed Resolution W-5174

Agenda ID: 17162

To: All Interested Persons

Enclosed is Proposed Resolution W-5174 of the Water Division, which grants in part San Gabriel Valley Water Company's request to amortize the under-collected balances contained in its Mains Projects Memorandum Account for its Fontana Division. Proposed Resolution W-5174 is scheduled to appear on the February 21, 2019 Commission Meeting Agenda (ID#17162).

The Commission may act on this resolution or it may postpone action until later. When the Commission acts on a proposed resolution, the Commission may adopt all or part of the proposed resolution, as written, or amend or modify the proposed resolution; or the Commission may set the proposed resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on Proposed Resolution W-5174 via email to Water.Division@cpuc.ca.gov on or before **February 11, 2019**. Please reference **"Proposed Resolution W-5174"** in the subject line.

Interested persons must also serve a copy of their comments on the utility on the same date that the comments are submitted to the Water Division. If email is unavailable, please submit comments to:

California Public Utilities Commission
Water Division
505 Van Ness Avenue
San Francisco, CA 94102

Comments should focus on factual, legal, technical errors, or policy issues in the proposed resolution.

Persons interested in receiving comments submitted may contact the Water Division at Water.Division@cpuc.ca.gov or (415) 703-1133. Please reference "Proposed Resolution W-5174."

/s/RAMI S. KAHLON

Rami S. Kahlon, Director
Water Division

Enclosures: Proposed Resolution W-5174
Certificate of Service
Service List

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5174

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RESOLUTION

(RES. W- 5174), SAN GABRIEL VALLEY WATER COMPANY (SAN GABRIEL). ORDER GRANTING IN PART SAN GABRIEL'S REQUEST TO AMORTIZE THE UNDER-COLLECTED BALANCES CONTAINED IN ITS MAINS PROJECTS MEMORANDUM ACCOUNT FOR ITS FONTANA DIVISON.

By Advice Letter No. 527-W filed on May 25, 2018.

SUMMARY

By Advice Letter No. 527-W, filed on May 25, 2018, San Gabriel Valley Water Company (San Gabriel) seeks authorization to recover the under-collected balance of \$3,385,564 in its Mains Project Memorandum Account (MPMA) as of April 30, 2018 through a temporary surcharge of \$0.0768 per 100 cubic feet (Ccf) over a 36-month period.

This Resolution grants in part and denies in part San Gabriel's request to amortize the MPMA. San Gabriel is ordered to file a supplement to Advice Letter No. 527 reducing the under-collected balance to \$2,161,866 in its MPMA as of April 30, 2018. The added special conditions in the attached tariff pages to Advice Letter No. 527-W are to be amended to indicate amortization of the Mains Project Balancing Account through a temporary thirty-six-month surcharge of \$0.0491 per Ccf effective ten days following receipt of the supplement to Advice Letter 527-W. In addition, the supplement to Advice Letter No. 527-W shall do the following: 1) establish a Mains Project Balancing Account (MPBA) in the Preliminary Statements of the San Gabriel Tariff; 2) transfer the authorized balance of \$2,161,866 from the MPMA to the MPBA for amortization; and 3) close and remove the MPMA from the Preliminary Statements of the San Gabriel Tariff. Finally, at the end of the three-year amortization any remaining balance, plus or minus, shall be transferred from the MPBA to the Previously Authorized Balances Balancing

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Account (PABBA) for the Fontana Water Company Division and the MPBA closed and removed from the Preliminary Statements of the San Gabriel Tariff.

BACKGROUND

In Application (A.) 11-07-005, the Commission reviewed San Gabriel's proposal for the mains replacements and repairs program based on the City of Fontana's Capital Improvement Plan (CIP). San Gabriel estimated costs for the City's CIP projects was \$29 million while the amount settled with the Commission's Office of Ratepayer Advocates (ORA) for the City of Fontana's CIP projects was \$16.2 million. The City of Fontana's estimate for the CIP projects was \$5.2 million, which was adopted in Decision (D.) 14-05-001.¹ The Commission also allowed "San Gabriel to establish [a] memorandum account to record the costs of mains repairs or replacements which do not coincide with the City's Capital Improvement Plan."²

On May 6, 2014, San Gabriel established the MPMA by Advice Letter No. 438. From May 2014 through June 30, 2017, the utility recorded, monthly, the capital costs, carrying costs³ and revenue requirements for the mains projects that were closed from January 2011 through June 2014 within the Fontana Division (Fontana). San Gabriel's adopted rate base in D. 14-05-001 reflected the \$5.2 million budgeted amount for mains work based on the City of Fontana's CIP.

The MPMA includes recorded costs and revenue requirement for thirty-six projects beginning in May 2014 when the MPMA was established through June 30, 2017 when

¹ D. 14-05-001, Ordering Paragraph No. 2 (i) states:

- "i. The capital program for Mains is reduced from the settlement's \$16.6 million to \$5.2 million, consistent with City of Fontana's Capital Improvement Plan. San Gabriel may, however, track any spending in excess of the allowance based on the Capital Improvement Plan."

² D. 14-05-001, at p. 14.

³ Capital carrying costs are comprised of depreciation expense, ad valorem tax, state and federal income taxes and return on rate base and accrued interest based on the 90-day commercial paper rate.

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these projects were added to rate base and included in Test Year 2017-2018 base rates pursuant to D. 17-06-008 in A. 16-01-002 (San Gabriel's most recent GRC proceeding). Interest on MPMA balances have been included through April 2018.

In Advice Letter No. 527-W, San Gabriel indicates that the MPMA balance for recovery of past revenue requirement associated with the thirty-six projects as of April 2018 is \$3,385,564, including accrued interest. By AL 527-W, San Gabriel proposes to amortize that balance through a thirty-six-month temporary surcharge of \$0.0768 per 100 cubic feet (Ccf) applied to quantity rates. The proposed rates would increase the monthly bill of the typical residential customer using 14 Ccf under Schedule FO-1 with a $5/8 \times 3/4$ "meter by \$1.08 or 1.5% from \$72.16 to \$73.24.

NOTICE AND PROTEST

San Gabriel served AL No. 527-W in accordance with General Order 96-B, Water Industry Rules 4.1 and 3.3.

On June 18, 2018, the Public Advocates Office (Cal PA) (formerly Office of Ratepayer Advocates) filed a protest to Advice Letter No. 527-W. In its protest, Cal PA stated that the MPMA includes projects beyond the scope for which D.14-05-001 intended when it established the MPMA. Cal PA pointed to Plant F14 Metropolitan Water District and San Bernadino Valley Municipal Water District interconnection project as an example of an unauthorized project included in the MPMA. Cal PA recommends that the Commission should reject Advice Letter No. 527-W and require San Gabriel to file an advice letter that includes only projects that are consistent with repair and replacement main projects as described in D. 14-05-001. All non-conforming projects should be reviewed as part of San Gabriel's next general rate case filing.

In its response, filed on June 25, 2018, San Gabriel states that Cal PA's protest should be rejected because its filing complies with D. 14-05-001 which does not limit the memorandum account to repair and replacement mains only. However, in the event that the Commission determines that the memorandum account is so limited, rather than rejecting Advice Letter No. 527-W in its entirety and taking it up in the next general rate case, the Commission should authorize recovery of the revenue

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requirement for the conforming projects and exclude the non-conforming projects from the memorandum account.

On June 14, 2018, Water Division suspended Advice Letter No. 527-W because additional time was required to process the filing.

DISCUSSION

Water Division reviewed the work papers accompanying Advice Letter No. 527-W to verify that the thirty-six projects tracked in the MPMA were consistent with the scope for the MPMA authorized in D. 14-05-001. In D. 14-05-001, San Gabriel was directed to record in the MPMA costs of mains repairs or replacements in excess of that associated with the \$5.2 million authorized addition to rate base consistent with the City of Fontana's CIP.

Water Division's review indicates that five projects encompassing 8 job numbers for a total of \$1,766,314.60 were outside the scope of the MPMA. Each of these five projects involved capital investments not associated with main repairs or replacements. These projects include:

- 1) The Metropolitan Water District and San Bernardino Valley Municipal Water District interconnections with Plant F14 to receive raw water from the two water wholesale agencies encompassing three job numbers (4854F-2, 4854F-3, and 4854F-8) during 2011 and 2012 for a total capital investment of \$1,469,760.06 involved no main repairs or replacements.
- 2) An on-line submittal of the 2012 Urban Water Management Plan Update (5487F-2) in 2014 at a total cost of \$5,831.80 involved no main repairs or replacements. An earlier 2011 portion of the project (5487F-1) described as preparing the 2010 Urban Water Management Plan Update was explicitly excluded from the MPMA by San Gabriel.
- 3) The addition of a new pipeline to put Well F10D into service in 2014 encompassing two job numbers (5555F-12 and 5555F-13) for a total capital investment of \$102,561.35 involved no main repairs or replacements.

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- 4) A new pipeline installation to improve flow availability to Plant F16 from the Alder Pressure Zone in 2011 (5493-2) at a total cost of \$8,934.29 did not involve main repairs or replacements. This is an unspecified additional cost to job number 5493F-1 in 2010 to install a new 24-inch interconnect pipeline to improve flow availability to Plant F16 which is not included in the MPMA.
- 5) The addition of a new pipeline from Plant F10 West to Plant F10 East to put Well F10D into service in 2011 at total capital investment of \$179,227.10 did not involve main repairs or replacements.

We conclude that the five projects described above are outside the scope of the MPMA authorized in D.14-05-001 and were inappropriately booked to the MPMA. The capital investment of \$1,766,314.60 for these five projects should be removed for purposes of calculating the revenue requirement for the period May 2014 through June 2017.

San Gabriel's work papers indicate that thirty-six projects it booked to the MPMA have at a total capital investment of \$10,929,463.88. San Gabriel then correctly deducted \$3,935,238.94 which is the amount of unspent funds from the \$5.2 million rate base addition the Commission authorized in D. 14-05-001 for mains repairs and replacements based on the City of Fontana's CIP. This results in net plant additions booked to the MPMA by San Gabriel of \$6,994,224.94. Based on our determination above that five projects with a capital investment of \$1,766,314.60 should be removed from the MPMA, the resulting authorized capital investment balance recorded to the MPMA is \$5,227,910.34.

Water Division calculated the associated revenue requirement for the \$5,227,910.34 capital investment over the period May 2014 when the MPMA was established through June 2017 when these capital investments were included in the Test Year 2017-2018 rate base and reflected in base rates in D.17-06-008 plus interest through April 2018. Water Division applied the current federal tax rate of 21% and the rate of return for the 2019-2021 recovery period based on D. 18-12-002 in San Gabriel's cost of capital proceeding, A. 18-05-005. The resulting authorized revenue requirement of \$2,161,866 is reasonable to be recovered from ratepayers. Using authorized sales from D.17-06-008 and the three-year amortization generates a surcharge of \$0.0491/Ccf which we authorize for recovery of the \$2,161,866 beginning balance in the to-be-established Mains Project Balancing Account (MPBA) (see below). For a typical customer using 14 Ccf per month,

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the surcharge results in an increase in the average monthly residential bill of \$0.69 or less than 1% from \$73.32 to \$74.01. Pursuant to General Order 96-B, Water Industry Rule 3.2, San Gabriel shall inform customers, by bill insert in the first bill that includes the above surcharge, of the amount of the surcharge expressed in dollar and percentage terms.

To effectuate the changes required to San Gabriel's request in Advice Letter 527-W that we authorize in this Resolution, San Gabriel will need to file a supplement to Advice Letter 527-W within ten days of the effective date of this resolution. The supplement should reduce the authorized balance in the Mains Project Memorandum Account from \$3,385,564 to \$2,161,866. The added special conditions in the attached tariff pages to Advice Letter No. 527-W are to be amended to indicate amortization of the Mains Project Balancing Account through a temporary thirty-six-month surcharge of \$0.0491 per Ccf effective ten days following receipt of the supplement to Advice Letter 527-W.

Included in its supplement to Advice Letter 527-W, San Gabriel will need to address three Tariff housekeeping requirements. First, San Gabriel will need to establish a Mains Project Balancing Account (MPBA) in its Tariff Preliminary Statements. Second, San Gabriel should transfer the authorized balance of \$2,161,866 from the MPMA to the MPBA for amortization. Third, San Gabriel will need to close and remove the MPMA from the Tariff Preliminary Statements.

Finally, at the end of the thirty-six-month amortization of the MPBA, any remaining balance, plus or minus, shall be transferred to the Previously Authorized Balances Balancing Account for the Fontana Water Company Division and the MPBA closed and removed from the Preliminary Statements of San Gabriel's Tariff.

SAFETY CONSIDERATIONS

The denial of specific projects from San Gabriel's requested amortization of the MPMA will not adversely impact San Gabriel's ability to safely operate and maintain its operations for the benefit of its customers, employees, and members of the public.

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COMMENTS

Public Utilities Code § 311(g)(1) provides that this resolution 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 the utility, Cal PA, and made available for public comment on January 22, 2019 with comments due on February 11, 2019.

FINDINGS AND CONCLUSIONS

1. San Gabriel Valley Water Company (San Gabriel) established the “Mains Project Memorandum Account” (MPMA) for its Fontana Water Company Division pursuant to Decision (D.) 14-05-001.
2. The purpose of the MPMA is to track costs for mains repairs or replacements in excess of \$5.2 million authorized addition to rate base in D. 14-05-001 consistent with the City of Fontana’s Capital Improvement Plan (CIP).
3. San Gabriel filed Advice Letter No. 527-W to request amortization of \$3,385,564, the balance in the MPMA including interest as of April 2018 through a surcharge of \$0.0768 per hundred cubic feet (Ccf) over a thirty-six-month period for its Fontana Division.
4. Advice Letter No. 527-W was protested by the Public Advocates Office on June 18, 2018.
5. San Gabriel included the capital cost and associated revenue requirement for thirty-six projects in the MPMA.
6. The MPMA includes \$10,929,464 in capital investment costs for thirty-six projects that were not related to the City of Fontana’s CIP.
7. Five projects encompassing eight job numbers (job numbers 4854F-2, 4854F-3, 4854F-8, 5487F-2, 5493F-2, 5555F-12, 5555F-13, and 5596F-1) totaling \$1,766,315 included in the MPMA did not involve main repairs or replacements.
8. The five projects encompassing eight job numbers identified in Finding No. 6 above were inappropriately booked to the MPMA and the associated capital investment of \$1,766,315 should be removed for purposes of calculating the revenue requirement for the period May 2014 through June 2017.

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9. The authorized capital investments recorded in the MPMA, after adjusting for the \$3,935,239 unspent authorized rate base for City of Fontana's CIP and the \$1,766,315 for projects outside the scope of the MPMA, is \$5,227,910.
10. The current federal tax rate and rate of return for 2019 should be used to calculate the revenue requirement associated with the authorized capital investment of \$5,227,910 in the MPMA to be recovered from ratepayers over the period 2019 through 2021.
11. The authorized revenue requirement associated with the authorized capital investment of \$5,277,910 is \$2,161,866.
12. San Gabriel should establish a Mains Project Balancing Account (MPBA) to its Tariff Preliminary Statements to amortize the authorized \$2,161,866.
13. San Gabriel should transfer the authorized balance of \$2,161,866 from the MPMA to the MPBA.
14. San Gabriel should close the MPMA and remove this account from its Tariff Preliminary Statements.
15. The authorized surcharge to recover the approved balance of \$2,161,866 over a three-year period beginning January 1, 2019 is \$0.0491/Ccf.
16. At the end of the three-year amortization of the MPBA, San Gabriel should transfer any remaining balance, plus or minus, to the Previously Authorized Balances Balancing Account for the Fontana Water Company Division and close the MPBA and remove the MPBA from the Tariff Preliminary Statements.

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THEREFORE, IT IS ORDERED THAT:

1. San Gabriel Valley Water Company's request in Advice Letter No. 527-W is denied in part and granted in part.
2. San Gabriel Valley Water Company shall file a supplement to Advice Letter No. 527-W within ten days of the effective date of this resolution to reduce the authorized balance in the Mains Project Memorandum Account from \$3,385,564 to \$2,161,866. The added special conditions in the attached tariff pages to Advice Letter No. 527-W are to be amended to indicate amortization of the Mains Project Balancing Account (MPBA) through a temporary thirty-six-month surcharge of \$0.0491 per hundred cubic feet effective ten days following receipt of the supplement to Advice Letter 527-W. Pursuant to General Order 96-B, Water Industry Rule 3.2, San Gabriel Valley Water Company shall inform customers, by bill insert in the first bill that includes the above surcharge, of the amount of the surcharge expressed in dollar and percentage terms.
3. San Gabriel Valley Water Company shall do the following as part of its supplement to Advice Letter No. 527-W:
 - a. Establish a Mains Project Balancing Account (MPBA) in the Preliminary Statements of its Tariff;
 - b. Transfer the authorized balance of \$2,161,866 from the Mains Project Memorandum Account (MPMA) to the MPBA for amortization; and
 - c. Close and remove the MPMA from the Preliminary Statements of its Tariff.
4. At the end of the thirty-six-month amortization of the Mains Project Balancing Account (MPBA), any remaining balance, plus or minus, shall be transferred to the Previously Authorized Balances Balancing Account for the Fontana Water Company Division and the MPBA closed and removed from the Preliminary Statements of the San Gabriel Valley Water Company Tariff.

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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 February 21, 2019 the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

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CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5174 on all parties in these filings or their attorneys as shown on the attached lists.

Dated January 22, 2019, at San Francisco, California.

/s/ROBIN BRYANT

Robin Bryant

Parties should notify the Division of Water and Audits, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

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APPENDIX A
SAN GABRIEL VALLEY WATER COMPANY
ADVICE LETTER NO. W-527
SERVICE LIST

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