

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

October 19, 2020

Proposed Resolution W-5232

Agenda ID: 18878

To: All Interested Persons

Enclosed is Proposed Resolution W-5232 of the Water Division, which authorizes Sierra Park Water Company (SPWC) to: 1) implement a \$21.09 quarterly surcharge to amortize \$58,051 in legal expenses recorded in its Legal Expenses Memorandum Account (LEMA); and 2) implement a \$15.88 quarterly surcharge to amortize \$43,685 engineering consulting expenses recorded in SPWC's Engineering Consultant Surcharge Memorandum Account (ECSMA). The LEMA and ECSMA quarterly surcharges will be recovered from each customer over a period of two years. Proposed Resolution W-5232 is scheduled to appear on the November 19, 2020 Commission Meeting Agenda (ID#18878).

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-5232 via email to Water.Division@cpuc.ca.gov on or before **November 9, 2020**. Please reference **"Proposed Resolution W-5232" 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, Third Floor
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-5232."

/s/BRUCE DEBERRY

Bruce DeBerry, Program Manager
Water Division

Enclosures: Proposed Resolution W-5232
Certificate of Service
Service List

PROPOSED RESOLUTION

Resolution W-5232
WD

Agenda ID #18878

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5232

November 19, 2020

RESOLUTION

(RES. W-5232) SIERRA PARK WATER COMPANY (SPWC), ORDER AUTHORIZING: 1) A SURCHARGE OF \$21.09 PER CUSTOMER PER QUARTER TO RECOVER \$58,051 RECORDED IN SPWC'S LEGAL EXPENSES MEMORANDUM ACCOUNT; AND 2) A SURCHARGE OF \$15.88 PER CUSTOMER PER QUARTER TO RECOVER \$43,685 RECORDED IN SPWC'S ENGINEERING CONSULTANT SURCHARGE MEMORANDUM ACCOUNT TO BE PAID FOR BY RATEPAYERS OVER A PERIOD OF TWO YEARS.

SUMMARY

By Advice Letter (AL) No. 7-W, filed on April 3, 2020, Sierra Park Water Company (SPWC), a Class D Water Utility, seeks to amortize \$58,051 in legal expenses recorded in its Legal Expenses Memorandum Account (LEMA), incurred during the January 6, 2017 through July 25, 2018 time period. This resolution authorizes the amortization of the \$58,051 the balance in SPWC's LEMA and a corresponding \$21.09 quarterly surcharge to be recovered from each customer over a period of two years.

By AL No. 7-W SPWC also seeks to amortize \$77,410 for engineering consulting expenses recorded in SPWC's Engineering Consultant Surcharge Memorandum Account (ECSMA), incurred during the July 11, 2019 through January 20, 2020 time period. SPWC included capitalized plant investment items not in adherence with the provisions of the ECSMA. Therefore, this resolution authorizes an adjusted amortization amount of \$43,685 (excluding the \$33,725 in capitalized plant items), and a corresponding quarterly surcharge of \$15.88 to be recovered from each customer over a period of two years.

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As a consequence of these two surcharges the average monthly bill will increase from \$75.23 to \$87.55 or 16.4%.

BACKGROUND

SPWC is a Class D investor-owned water utility with 344 flat rate service connections providing service in the area northeast of Sierra Village, off of Highway 108 in Tuolumne County. The community consists mainly of seasonal and intermittent residents, as most of the residences are vacation homes, a clubhouse, and an irrigation service area.

SPWC's water system is supplied by two groundwater wells and six storage tanks. Well No. 5, constructed in 1986, is 350 feet in depth, and operates with a 10 horsepower (hp) pump. Well No. 6 was constructed in 1996, is 403 feet in depth, and operates with a 15 hp pump. The wells have a supply capacity of approximately 150 gallons per minutes when both wells are operating. There are total of six (6) storage tanks located in the two areas at the highest elevation of the community. The primary storage is located at Site No. 1 consisting of a welded steel tank with a capacity of 210,000 gallons. Site No. 2, primarily backup storage, consists of one (1) 43,000 gallon bolted steel tank and four (4) 12,500 gallon welded steel tanks which were constructed in 1999.

Legal Expenses:

SPWC's LEMA was established to record and track all legal expenses to comply with Ordering Paragraphs Nos. 1 and 2 of Decision (D.) 16-01-047, adopted in Application (A.)13-09-023, incurred by SPWC in securing a Certificate of Public Convenience and Necessity (CPCN) from California Public Utilities Commission (CPUC) and the transfer of assets from the Odd Fellows Sierra Recreation Association to SPWC. The firm of Downey Brand, attorneys, was engaged by the utility to assist in compliance with D. 16-01-047. Later SPWC required additional legal representation by these attorneys regarding a petition to modify Decision 16-01-047 filed by certain complainants. D. 16-11-007 denied the petition to modify.

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Engineering Consultant Expenses:

SPWC's ECSMA was established to track and record the cost of engaging an engineer to perform studies required by Section 5.1.3 in D.16-01-047.¹ D. 16-01-047, and Ordering Paragraph No. 4, granted SPWC the authority to recover the costs of the required engineering consultant studies through a surcharge. SPWC entered an engagement agreement with Black Water Consulting Engineers to perform the system studies required by D. 16-01-047. The initial engineering study addressed the capital improvements that SPWC needed to bring the utility to current industry standards. The engineering studies also included analysis of the capital projects needed to address the manganese contamination issues cited in the State Water Boards' Enforcement Letter No. 03-11-15E-051 on March 24, 2015.

Resolution (Res.) W-5204, dated November 7, 2019, established the rates for SPWC's first general rate case since its establishment as an investor-owned water utility. Previously, the initial rates were established in D.16-01-047, dated January 28, 2016, which authorized SPWC's CPCN.

NOTICE AND PROTESTS

AL No. 7-W was served on the service list on June 22, 2020 in accordance with the provisions of Section 4.3 of GO 96-B. Two protests were received generally addressing the increasing costs and quality of water service.

On July 6, 2020, Bill Ordwein, Chief Operating Officer of SPWC, responded to each protest indicating the following:

1. The LEMA includes the legal costs that were necessary to establish and comply with the CPUC requirements in order to obtain the CPUC license for our Class D water company. This request to the CPUC is asking for a temporary rate increase for two years to recover the expense.
2. The existing CPUC approved rate is to cover maintenance and repairs as well as all the other costs needed to maintain the water system. The CPUC reviewed all of SPWC's expenses in close detail before authorizing the existing rate.

¹ Decision Resolving a Complaint and Authorizing a Certificate of Public Convenience and Necessity as Modified

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3. All CPUC licensed water companies are subject to CPUC audits. Customers will be notified of the results when they are available.
4. Water samples are regularly gathered from multiple locations throughout the park and tested by an independent laboratory. The results show that the water meets the California standards for safe drinking water. The manganese notification that was sent notified customers that the drinking water does not meet the California Secondary Drinking Water Standards.
5. The original rate set by the CPUC was based on the best expense estimates available at the time to maintain the water system. The original rate did not include revenue to cover all expenses. Now actual operational expenses for the past several years have been reviewed by the CPUC in order to establish a rate that will meet operational expenses. SPWC is now working with a State licensed engineering company on improvements.

DISCUSSION

By AL No. 7-W, filed on April 3, 2020, SPWC seeks to recover the accumulated balance of \$58,051 in the LEMA from January 6, 2017 through July 25, 2018. The Water Division (WD) reviewed the invoices for legal services provided as workpapers.

In addition, AL No. 7-W seeks to recover the accumulated balance of \$77,410 in the ECSMA from July 11, 2019 through January 20, 2020. WD reviewed the invoices for engineering services, including the system study and capital improvement evaluations provided as workpapers in AL No. 7-W.

Amortization of SPWC's LEMA and ECSMA

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden of meeting the following standards:

- 1) The utility acted prudently when it incurred these costs;
- 2) The utility paid reasonable amounts for these costs;
- 3) The memorandum account costs are not covered by other authorized rates; and
- 4) It is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates.

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SPWC seeks to recover the expenses recorded in its LEMA, from January 6, 2017 through July 25, 2018. In support of its request, SPWC submitted all pertaining invoices, paid hourly rates, and an explanation of the regulatory functions pertaining to all legal expenses incurred.

The WD reviewed the invoices, hourly rates and regulatory functions pertaining to the incurred legal expenses and finds the costs to be reasonable. The WD confirmed that these expenses are not being recovered by other rates and that SPWC acted prudently in incurring its legal expenses as they were incurred for the utility's legal representation to obtain Commission approval for the necessary CPCN and the transfer of utility assets. As a guide to determining reasonable legal costs, the staff reviewed Resolution (Res.) ALJ-357, which adopts legal intervenor compensation rates. WD finds that the hourly rates incurred are reasonably comparable to those legal hourly rates in Res. ALJ-357 reflecting years of experience for the time period the expenses were incurred. Accordingly, the WD finds it prudent for SPWC to recover these costs from its customers.

Therefore, SPWC should be authorized to amortize \$58,051, the balance in SPWC's LEMA through a corresponding \$21.09 quarterly surcharge to be recovered from each customer over a period of two years, or eight quarters.

In addition, SPWC seeks to amortize \$77,410 for engineering consulting expenses recorded in its ECSMA, from July 11, 2019 through January 20, 2020. In support for engineering consultant expenses, SPWC submit the invoices for its expenses, which consist of : 1) the engineering consultant costs for the engineering evaluation of the condition of the various components of the water system; 2) preparing the request for proposal; 3) project coordination with regulatory agencies; and 4) engineering analysis and preparation of engineering reports.

WD reviewed SPWC's ECSMA and confirmed that utility recorded engineering consultant expenses were in accordance with the established ECSMA and D.16-01-047. SPWC however included \$33,725 in capitalized plant investment² not in adherence with the provisions of the ECSMA. Accordingly, the WD subtracted \$33,725 in capital expenses from SPWC's requested amount resulting in an ECSMA amortization amount of \$43,685.

² The capital cost was incurred to construct a SCADA system.

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WD reviewed the scope of work for SPWC's engineering consultant expenses and finds the utility paid reasonable amounts for the engineering consulting work performed. The WD also finds that SPWC acted prudently in incurring the engineering expenses, since the engineering studies were required by D.16-01-047 and therefore prudent to be recovered from its customers. The WD confirmed that these expenses are not covered by other rates. Accordingly, SPWC should be granted authority to amortize the \$43,685 through a corresponding quarterly surcharge of \$15.88 to be recovered from each customer over a period of two years.³

At the adopted rates by Res. W-5204 the average monthly bill for a residential flat rate customer is approximately \$75.23. With the recommended surcharges the average monthly bill will increase from \$75.23 to \$87.55, or by \$12.32 or 16.38%. SPWC is located in the 95346 zip code in Tuolumne County where the annual median household income (MHI), for the zip code is \$71,805.⁴ The proposed rate, accordingly, would be 1.45% of the respective MHI.

It should be noted that no affordability criteria have been developed and adopted in any Commission Decision or Resolution. The Commission, however, adheres to cost-of-service regulatory principles in developing rates for its jurisdictional utilities. Thus, the WD's recommended rates for SPWC are at the minimum required to satisfy the utility's technical, managerial and financial capacity, and operational capability. The discussion regarding affordability is presented, nonetheless, to indicate to the Commission the relationship between the proposed rates and the local incomes.

COMMENTS

Public Utilities Code section 311(g)(1) requires that a proposed resolution be served on all parties, and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution.

³ Ordering Paragraph No. 3 of D. 16-01-047 ordered customer refunds through 2020 to offset any engineering costs. Since SPWC did not implement the \$124 surcharge as authorized, this matter did not apply.

⁴ Source: 2012-2016 American Community Survey 5-Year Estimates

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Accordingly, this proposed resolution was mailed to the utility and its service list, and made available for public comment on October 19, 2020.

SAFETY

Safety for water utilities considers a multitude of factors such as water quality, system design, operation and maintenance, and service. Among the highest safety priorities for the Commission is ensuring that water utilities serving water for human consumption provide water that is not harmful or dangerous to human health.

In SPWC's last general rate case for Test Year 2019, adopted by Res. W-5204, the WD communicated with the State Water Resources Control Board (SWRCB), Division of Drinking Water (DDW) Merced District Office and was provided with a copy of the 2017 Sanitary Survey Inspection report, and a 2015 compliance order for a review of the manganese monitoring results for two of the utility's wells. In 2015, SPWC's wells exceeded the secondary drinking water standard for manganese levels.⁵

SPWC responded to the compliance order, as required, and customers were notified each quarter as required and SPWC is taking the appropriate steps to resolve the manganese water quality issue. SPWC is in the process of securing state funding for the construction of the water treatment facility in order to address its manganese water quality issue. The plant is estimated to cost \$1.30 million dollars and SPWC must complete 90.00% of the project engineering to be eligible to apply for State funding. SPWC indicates that it has completed approximately 60.00% of the project engineering and is working on completing the necessary requirements for a Clean Water State Revolving Fund application.

COMPLIANCE

SPWC has no outstanding Commission compliance orders and has been filing annual reports as required and paying its required user fees.

⁵ March 24, 2015, SWRCB Enforcement Letter No. 03-11-15E-051.

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FINDINGS

1. By Advice Letter 7-W, filed on April 3, 2020, Sierra Park Water Company (SPWC), a Class D Water Utility, seeks to amortize the expenses recorded in its Legal Expenses Memorandum Account (LEMA), from January 6, 2017 through July 25, 2018.
2. By Advice Letter 7-W, filed on April 3, 2020, SPWC seeks to amortize the expenses recorded in its Engineering Consultant Surcharge Memorandum Account (ECSMA), from July 11, 2019 through January 20, 2020.
3. SPWC's LEMA was established to record and track all legal expenses to comply with Ordering Paragraphs Nos. 1 and 2 of Decision (D.)16-01-047 incurred by SPWC's in securing a the CPCN from the CPUC and the transfer of assets from the Odd Fellows Sierra Recreation Association to SPWC.
4. The firm of Downey Brand, attorneys, was engaged by the utility to advise SPWC for compliance with D.16-01-047. SPWC needed additional legal representation in a petition to modify D.16-01-047 filed by certain complainants. In D.16-11-007, the CPUC denied the petition to modify.
5. SPCW's ECSMA was established to track and record the cost of engaging an engineer to perform studies required in Section 5.1.3 in D.16-01-047.
6. SPWC entered an engagement agreement with Black Water Consulting Engineers to perform the required system studies in D.16-01-047. The initial engineering study addressed the capital improvements that SPWC needed to bring the utility to current industry standards and address the manganese water quality contamination issues cited in the State Water Resources Control Boards' Enforcement Letter No. 03-11-15E-051 on March 24, 2015.
7. AL No. 7-W was served on the service list in accordance with the provisions of Section 4.3 of GO. 96-B. Two protests were received and the utility replied.
8. In support of its LEMA amortization request, SPWC's submitted all pertaining invoices, paid hourly rates, and an explanation of the regulatory functions for the legal expenses incurred which amounted to \$58,051.

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9. The WD reviewed the invoices, hourly rates and regulatory functions pertaining to the incurred legal expenses and finds the costs to be reasonable.
10. The WD confirmed that these legal expenses are not being recovered by other rates and that SPWC acted prudently in incurring its legal expenses.
11. SPWC should be permitted to amortize the \$58,051 recorded in its LEMA and impose a surcharge of \$21.09 per quarter on each customer bill over eight quarters to recover legal expenses incurred.
12. SPWC should be permitted to transfer amounts in its LEMA to a balancing account for cost recovery.
13. In support of its ECSMA amortization request, SPWC provided the invoices for engineering services, including the system study and capital improvement evaluations which amounted to \$ 77,410 and recorded in the utility's ECSMA.
14. The WD reviewed SPWC's ECSMA and confirmed that utility recorded engineering consultant expenses were in accordance with the established ECSMA and D.16-01-047.
15. SPWC included \$33,725 in capitalized plant investment items not in adherence with the provisions of the ECSMA and therefore these expenses are excluded from SPWC's requested amount resulting in an ECSMA amortization amount of \$43,685.
16. The WD finds that SPWC meets the standards and criteria for cost recovery of the requested engineering costs recorded in its ECSMA
17. SPWC should be granted authority to impose a quarterly surcharge of \$15.88 to be recovered from each customer over a period of two years to amortize the \$43,685 from its ECSMA.
18. SPWC should be permitted to transfer amounts in its ECSMA to a balancing account for cost recovery.
19. These surcharges will not result in a rate of margin greater than the last authorized rates for SPWC.

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THEREFORE, IT IS ORDERED THAT:

1. Sierra Park Water Company is authorized to transfer the amount of \$58,051 from its Legal Expense Memorandum Account to a balancing account for recovery over a period of two years. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
2. Sierra Park Water Company is authorized to recover the \$58,051 in the balancing account reflected in Ordering Paragraph 1 above by imposing a surcharge of \$21.09 per quarter over eight quarters on each customer's bill.
3. Sierra Park Water Company is authorized to transfer the amount of \$43,685 from its Engineering Consulting Surcharge Memorandum Account to a balancing account for recovery over a period of two years. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
4. Sierra Park Water Company is authorized to recover the \$43,685 in the balancing account reflected in Ordering Paragraph 3 above by imposing a surcharge of \$15.88 per quarter over eight quarters on each customer's bill.
5. Authority is granted under Public Utilities Code Section 454 to Sierra Park Water Company to make effective the revised surcharge rates in the attached Rate Schedules attached to this Resolution, and concurrently cancel its presently effective Schedules No. 1 General Metered Service and No. 2R Residential Flat Rate Service. The effective date of the revised rate schedule shall be five days after the date of this Resolution.

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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 November 19, 2020; the following Commissioners voting favorably thereon:

RACHEL PETERSON
Acting Executive Director

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APPENDIX A

Sierra Park Water Company

Schedule No. 1

GENERAL METERED SERVICE

SPECIAL CONDITIONS

(N)

2. A \$21.09 quarterly surcharge shall be applied to each customer's water bill to amortize the Legal Expense Balancing Account for eight (8) quarters or until \$58,051 have been collected. The surcharge shall be separately identified on each bill.

3. A \$15.88 quarterly surcharge shall be applied to each customer's water bill to amortize the Engineering Consultant Surcharge Balancing Account for eight (8) quarters or until \$43,685 have been collected. The surcharge shall be separately identified on each bill.

(N)

END OF APPENDIX A

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APPENDIX B

Sierra Park Water Company

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS

2. A \$21.09 quarterly surcharge shall be applied to each customer's water bill to amortize the Legal Expense Balancing Account for eight (8) quarters or until \$58,051 have been collected. The surcharge shall be separately identified on each bill.

3. A \$15.88 quarterly surcharge shall be applied to each customer's water bill to amortize the Engineering Consultant Surcharge Balancing Account for eight (8) quarters or until \$43,685 have been collected. The surcharge shall be separately identified on each bill.

(N)

(N)

END OF APPENDIX B

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INFORMATION REGARDING SERVICE

I have electronically served all parties in these filings or their attorneys as shown on the attached service list who have provided an e-mail address for Proposed Resolution No. W-5232.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the document to be served by U.S. Mail on all parties listed on the attached service list for whom no e-mail address is provided.

The official service list I use is current as of today's date.

Dated October 19, 2020, at San Francisco, California.

/s/ROBIN BRYANT

Robin Bryant

Parties should notify the Water Division, 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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SIERRA PARK WATER COMPANY ADVICE LETTER NO. 7 SERVICE LIST

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