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AGENDA ITEM #3957

WATER/SNR/MXK/EYC:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4504  
October 28, 2004

R E S O L U T I O N

**(RES. W- 4504), ALCO WATER SERVICE (ALCO), NORMCO DISTRICT (NORMCO) AND MOSS LANDING DISTRICT (MLD). ORDER AUTHORIZING A SURCHARGE TO RECOVER AN INCREASE IN WATER TESTING COSTS AND DEPARTMENT OF HEALTH SERVICES FEES PRODUCING AN INCREASE IN ANNUAL REVENUE FOR NORMCO OF \$31,396.53 OR 12.87% AND FOR MLD OF \$18,470.31 OR 16.4%.**

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**SUMMARY**

By Advice Letter No. 98, filed on May 4, 2004, ALCO seeks to add a surcharge of \$14.26 per month for six months for NORMCO and \$24.43 per month for six months for MLD to their metered service schedule, No. 1-ND, and Schedule No. 1-ML, respectively. This increase is to recover water-testing costs and Department of Health Services (DHS) Fees incurred during 2003 over and above the amount allowed in the last general rate case. This resolution authorizes recovery but extends the period of time.

**BACKGROUND**

ALCO's present rates became effective on May 9, 2003, pursuant to Res. W-4319, which authorized a surcharge to recover an increase in water testing costs. ALCO's last general rate cases were granted pursuant to Res. W-3798 dated March 13, 1996 for NORMCO, and Res. W-4046 dated June 25, 1997, for MLD. This rate increase will not result in a rate of return greater than that authorized by Res. W-3798 or Res. W-4046.

ALCO, a Class B utility, provides water service to, among others, 367 customers in its North Monterey County (NORMCO) District and 126 customers in its Moss Landing District (MLD) located in Monterey County. ALCO requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to recover \$31,396.53 and \$18,470.31 in costs associated with 2003 water quality requirements for NORMCO

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and MLD, respectively, via a surcharge of \$14.29 per customer per month over six months for NORMCO and \$24.43 per customer per month over six months for MLD. ALCO's recorded earnings test for the calendar year 2003 shows that NORMCO earned a rate of return of 4.07% and MLD earned a rate of return of 5.4%. The last authorized rate of return for Normco was 12% and for MLD was 13.72%. Therefore both districts' earnings are less than the amount last authorized on an actual basis.

### **DISCUSSION**

Res. No. W-4013, dated December 20, 1996, which expired January 1, 2002, and Res. No. 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, and office of drinking water user fee memorandum accounts (UFMA) to track California DHS user fees 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, while UFMA recovery does not. This advice letter requests recovery from WQMA; this resolution deals with WQMA only.

The surcharge requested herein would allow ALCO to recover WQMA balances for year 2003. The Water Division (WD) recommends that ALCO be authorized to recover the total amount of \$85.55 per NORMCO customer and \$146.59 per MLD customer, by way of surcharge over a period of 36 months instead of the six months Alco requested. Allowing a surcharge of \$14.26 and \$24.43 per customer per month for NORMCO and MLD, respectively, will be a rate shock and a burden to the customers. The under-collections represent 12.87% over 2003 recorded revenues for NORMCO and 16.4% for MLD. Standard Practice U-27-W, (Consumer Price Index, Rate Base, and Expense Offset Rate Increases and Amortizing Balancing and Memorandum Accounts, Preparing and Processing of Advice Letters..), recommends that reserve and memorandum account amortization surcharges be spread over three years for under-collections over 10% of gross revenues. Accordingly, WD recommends a recovery period of thirty-six months, which results in a surcharge of \$2.38 per customer per month for NORMCO and a surcharge of \$4.07 per customer per month for MLD.

Service is satisfactory. ALCO is in compliance with all Commission orders.

## **NOTICE AND PROTESTS**

Notice of the proposed rate increase was placed in each customer's billing invoice on May 27, 2004 for NORMCO and May 24, 2004 for MLD. There were fifteen protests concerning the proposed increase. Many of the protests addressed the amount of the increase in addition to the integrity of the management. The Division has responded in writing or email to each protestant explaining the need for the increase.

### **Comments on Draft Resolution**

The draft resolution of the Water Division was mailed to parties on August 26, 2004, in accordance with Section 311 (g)(1) of the Public Utilities Code. No comments were received.

## **FINDINGS**

1. Res. No. W-4327 authorizes all Class B, C, and D water utilities to establish WQMAs. Class B, C, and D water utilities were also authorized in Res. No. W-4327 to request recovery of these account balances by advice letter filings.
2. On May 4, 2004, ALCO filed Advice Letter No. 98 to increase rates to recover water testing and DHS fees.
3. NORMCO and MLD are currently earning under their last authorized rate of returns of 12% and 13.72%, respectively.
4. The surcharge herein would allow NORMCO and MLD to recover WQMA balances which total \$31,396.53 and \$18,470.31, respectively.
5. The under-collections represent 12.87% over the 2003-recorded revenues for NORMCO and 16.4% for MLD.
6. It is proper for ALCO to assess a surcharge of \$85.55 per customer for Normco and \$146.59 per customer for MLD to recover the WQMA balance. Standard Practice U-27-W indicates recovery for under-collections over 10% to be spread over three years. This result is a surcharge of \$2.38 per customer per month for NORMCO and a surcharge of \$4.07 per customer per month for MLD for thirty-six months.
7. There were fifteen protests concerning the proposed surcharge of \$14.26 per month for six months for NORMCO District and \$24.43 per month for six months for Moss Landing District. The requested recovery of the undercollections represents more than 10% of the 2003-recorded revenues for both districts. The recommended surcharges are substantially lower than those proposed and recovery is over 36 months.

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8. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311 (g)(3).

**THEREFORE IT IS ORDERED THAT:**

1. Alco Water Service is authorized to recover \$31,396.53 (\$2.38 per month), and \$18,470.31 (\$4.07 per month) for Normco and Moss Landing districts, respectively, over a period of 36 months.
2. Alco Water Service is authorized to file by advice letter in accordance with General Order 96-A, to revise its Schedule No. 1-ND, Metered Service, for the NORMCO District, and Schedule No. 1-ML, Metered Service, for the Moss Landing District, to implement the surcharge rates approved herein, and to cancel the corresponding presently effective rates approved herein, and to cancel the corresponding presently effective rate schedules. The rate schedules filed by this advice letter are rejected.
3. Alco Water Service, Inc. is directed to maintain a balancing account to track these revenues as required by Public Utilities Code Section 792.5.
4. 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 October 28, 2004; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director