

WATER/RSK/PTL/MML/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

**RESOLUTION W-4830
July 29, 2010**

R E S O L U T I O N

(RES. W-4830), UNION PACIFIC RAILROAD COMPANY, KEENE WATER SYSTEM (Keene). ORDER AUTHORIZING A RATE BASE OFFSET REVENUE INCREASE, PRODUCING AN INCREASE IN GROSS ANNUAL REVENUES OF \$33,320 OR 28.94%.

SUMMARY

By Advice Letter (AL) 9 filed on February 22, 2010, Keene, a Class D water utility, requested a revenue increase of \$36,194 or 31.44% due to increase in rate base arising from the water plant additions ordered by Decision (D.) 06-07-034 dated July 20, 2006. Keene requested to collect the increased revenue via a surcharge of \$104 per month per customer. This resolution authorizes an increase in gross revenue of \$33,320 or 28.94% to be collected via a surcharge of \$63.83 per month per meter equivalent¹. The increase will not result in a rate of return greater than that last authorized for Keene.

BACKGROUND

Ordering Paragraph 6 of D.06-07-034, dated July 20, 2006, directed Keene to improve the distribution system serving Upper Keene and Lower Keene. Ordering Paragraph 8 of that decision authorized Keene to file a rate base offset to collect the associated revenue requirement via a surcharge.

Keene requests approval to increase the rate base by \$744,706 for its water plant additions. At the currently authorized rate of return of 2.39%, this increase in rate base results in an increase in the revenue requirements amounting to \$36,194 or 31.44% relative to revenues at present rates. Keene requests to collect the revenue via a surcharge of \$104 per month per customer.

¹ The meter equivalent is the charge to the smallest meter. Charges for larger meters are in direct proportion to their capacity relative to the smallest meter.

Keene serves 29 customers. The present rates were established on January 21, 2009 by Advice Letter 7, a Consumer Price Index increase of \$4,925 or 4.1%.

NOTICE AND PROTEST

Notice of the proposed rate increase was mailed to customers on February 2, 2010. A protest was received on the 18th of February 2010 from a customer. The customer protest stated that the increase was unreasonable. Keene's response to the customer was received on the 24th of February 2010. Keene stated that the customer had not challenged the reasonableness of any of the construction costs, but the reasonableness of the impact on rates. Division of Water and Audits (DWA) agrees with Keene. However, as discussed below, DWA recommends changes that will lessen the impact on most customers.

DISCUSSION

DWA reviewed system schematics, contractor reports and invoices supporting expenditures for the distribution system improvements for Upper Keene and Lower Keene. DWA initially determined that the plant additions totaling \$744,706 were reasonable. However, during the comment period one customer alleged that the delay in construction caused by negotiations for the easement at her property was unnecessary and could have been avoided if Keene had negotiated in a timely and reasonable fashion. Keene denies that it was unreasonable in the negotiations. DWA is unable to make a determination and believes this a matter inappropriate for the advice letter process under General Order 96, Section 5.1 in that it may require a hearing. Expenses totaling \$59,118 associated with the easement negotiations have been identified and should be set aside. Keene may request a return on this amount by application. DWA recommends rates at this time based on the remaining \$685,587 of plant investment.

DWA determined an annual revenue requirement of \$33,320 based on the 2.39% rate of return and the 2.50% depreciation rate adopted by D.06-07-034.

Rate base offsets for water utilities are normally applied to base rates according to the adopted rate design rather than through a surcharge. However, Ordering Paragraph 8 of D.06-07-034 states that the revenue requirement is to be collected via a surcharge. Keene has requested a \$104 per customer surcharge which would apply equally regardless of meter size or the number of meters charged to a given customer. Keene's

current rate design, adopted by D.06-07-034, allocates fixed charges by meter equivalents using the standard ratios given in Standard Practice U-7-W. DWA believes that a surcharge per meter equivalent² would allocate charges in a way consistent with the adopted rate design. DWA's approach is reasonable because the standard ratios are based on the capacity of the meter to deliver water.

At the proposed rates, a customer with a single 5/8-inch x 3/4-inch meter will pay a monthly surcharge of \$63.83. The surcharges for each of Keene's available meter sizes are shown in the tariff in Appendix A.

COMPLIANCE

There are outstanding Commission orders requiring system improvements and reports from the utility. Keene has maintained a dialog with DWA on the status of improvements and it appears to be proceeding conscientiously to resolve the issues. The utility has been filing annual reports as required.

COMMENTS

Public Utilities Code Section 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. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this Resolution was neither waived nor reduced. Accordingly, a draft Resolution was mailed to all parties for comments. Since the surcharge is substantially higher for some customers than originally noticed, the draft was also mailed to all customers.

Five comment letters, representing a total of six customers were received by DWA as were comments from Keene. In its comments Keene states that it received only four of the letters.

One customer's allegation that Keene was unreasonable during easement negotiations has been addressed in the discussion above. All of the customers commented on the size of the increase and the impact on the low income customers in the community.

² This is the method used for Safe Drinking Water Bond Act surcharges, which are also for the purchase of plant and usually quite substantial.

Other comments regarded compliance issues of which DWA is already aware or amounted to relitigation of issues considered in D.06-07-034.

FINDINGS

1. Expenditures for completed projects totaling \$744,706 are reasonable.
2. A dispute exists over \$59,118 in expenses incurred due to a delay caused by an easement negotiation.
3. Keene may request recovery on the disputed \$59,118 by application.
4. Recovery on an increase in rate base of \$685,587 should be authorized.
5. An increase in the revenue requirement of \$33,320 or 28.94% accurately reflects the increase in rate base of \$685,587.
6. Revenue requirements for water rate base offsets are usually applied to base rates.
7. Decision 06-07-034 orders that the revenue requirement be collected via a surcharge.
8. A surcharge per meter equivalent is consistent with the current rate design.
9. The revenue requirement should be collected via a surcharge of \$63.83 per meter equivalent per month.
10. The Commission finds, after investigation by the Division of Water and Audits, that the rate increase hereby authorized is just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Union Pacific Railroad Company, Keene Water System, is authorized to file a supplemental advice letter incorporating the revised rate schedule attached to this resolution as Appendix A and to concurrently cancel its presently effectively Schedule 1, General Metered Service. The effective date of the revised schedule shall be five days after the date of filing.

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 July 29, 2010; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

TIMOTHY ALAN SIMON

NANCY E. RYAN

Commissioners

APPENDIX A

Keene Water System

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Service to the premises listed on Revised Exhibit No. 6 of D.06-07-037 in the communities of Keene and Woodford, in Kern County.

RATES

Quantity Rate:

For all water, per 1000 gallons	\$ 9.22
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Service Charge:	Per Meter	Rate Base	
	<u>Per Month</u>	<u>Surcharge</u>	
For 5/8 x 3/4-inch meter	\$ 96.95	\$ 63.83	(N)
For 3/4-inch meter	\$145.43	\$ 95.75	(N)
For 1-inch meter	\$242.38	\$159.58	(N)
For 1-1/2-inch meter	\$484.74	\$319.16	(N)
For 2-inch meter	\$775.59	\$510.66	(N)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished to the account of the landlord or property owner.