

WATER/RSK/BMD/PTL/AAS/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4927
August 2, 2012

RESOLUTION

**(RES. W-4927), COBB MOUNTAIN WATER COMPANY (CMWC).
ORDER AUTHORIZING A \$2.34 SURCHARGE, TO BE COLLECTED IN
EIGHTEEN PAYMENTS OVER THREE YEARS, TO RECOVER
UNEXPECTED REPAIR COSTS FOR A TOTAL OF \$2,607 OR A 15%
INCREASE IN GROSS ANNUAL REVENUE.**

SUMMARY

This resolution authorizes CMWC to recover \$2,607 through a surcharge of \$42.05 per customer to be collected in 18 payments of \$2.34 over three years. This surcharge will result in a 15% increase in gross annual revenues from the gross revenues earned under existing rates. This increase recovers funds in the Unexpected Repair Costs Memorandum Account. The increase will not result in a rate of return greater than that last authorized for CMWC.

BACKGROUND

CMWC requested authority to file Advice Letter (AL) 38, on February 6, 2012, under General Order (GO) 96-A¹ and Section 454 of the Public Utilities Code to add a surcharge to its tariff Schedule No. 1A, Annual General Metered Service, resulting in an increase in gross annual revenues of \$2,607, or a 15% increase in gross annual revenues. This increase will recover costs in the Unexpected Repair Costs Memorandum Account.

CMWC, a Class D utility, presently serves 62 metered customers in residential areas located one mile west of the town of Cobb, Lake County. CMWC's Schedule No. 1A rates became effective on November 1, 2011, pursuant to AL-37², which requested

¹ CMWC cited to Section 6 of GO 96-A. GO 96-A was updated by GO 96-B. The section from GO 96-B that CMWC should have cited is Section 7.

² Per Res. W-4664, this was a Tier 1 approval.

recovery of \$577 for memorandum account recovery of unexpected increased testing costs required by the California Department of Public Health.

CMWC's last general increase was authorized on October 27, 2005, pursuant to Res. W-4567, which authorized a revenue increase of \$3,391, or 24.22% in gross annual revenues, and a rate of return (using the rate base method) of 13.4% for Test Year 2005.

DISCUSSION

Decision (D.) 92-03-093, dated March 31, 1992, authorized Class C and Class D water utilities to establish a memorandum account to track unanticipated costs of repairs.³ Recovery of these expenses requires Commission approval.

D.92-03-093 addresses repair costs of small water companies in the following way:

"Leaks in underground pipes, failed water pumps and other unanticipated repair costs are the bane of small water companies. In their testimony, owners of small water companies identified unanticipated repair costs as the single greatest obstacle in realizing rate of return." (Section 10, pg. 24.)

"Unanticipated costs, primarily for repair of leaks and other equipment, are the major reason that small water companies are unable to earn their authorized rate of return." (Finding of Fact 19.)

"A Class C or a Class D water utility is authorized to establish a memorandum account to track unanticipated costs of repairs necessary for a utility's service to its customers and to notify the Water Utilities Branch (Branch) by letter when it has done so. A Class C or Class D water utility is authorized to file by advice letter, or as part of a general rate case, to recover costs recorded in the memorandum account for unanticipated repair costs either in rates or in a one year surcharge when the total cost exceeds 2% of the utility's last adopted gross revenues. Costs already reflected in rates or recoverable through insurance or other means and costs that with reasonable diligence could have been avoided shall not be recoverable through the memorandum account." (Ordering Paragraph No. 2.)

³ D.92-03-093, Ordering Paragraph 2.

CMWC established its Unexpected Repair Costs Memorandum Account per AL-36 on September 13, 2010. The leak period was from June 20, 2011 to January 13, 2012, which was after the opening of the memorandum account.

Utilities bear the burden, when they request recovery of costs recorded in a memorandum account, to show that: the costs are not covered by other authorized rates; it is appropriate for ratepayers to pay for these categories of costs in addition to otherwise authorized rates; the utility acted prudently when it incurred these costs; and the level (i.e., amount) of booked costs is reasonable. (Res. W-4824, Ordering Paragraph 5.)

The expenses requested by CMWC in AL-38 were incurred for repairs involving unanticipated leaks to its water mains. These leaks were unforeseeable and therefore the repair costs were unanticipated, and, thus, CMWC could not have included these costs in its last general rate increase case. Division has reviewed CMWC's last general rate increase authorized on October 27, 2005, in Res. W-4567 and finds that CMWC did not receive any revenue for these recently incurred expenses to repair leaks in its main lines.

Unanticipated repair costs are costs that are normally paid by a company's ratepayers. The repairs were necessary for the utility's service to its customers because the mains were leaking and needed to be fixed. Accordingly, it is appropriate for CMWC's customers to pay for these repair costs. CMWC was unable to detect the source of the leaks and hired a company that specialized in this service, which detected and repaired the leaks. Thus, the utility acted prudently in incurring these repair costs.

The Division of Water and Audits (Division) inspected the facility and reviewed CMWC's expenditures recorded in its invoices and checks and found them reasonable. Division Staff determined that CMWC did not receive any insurance proceeds covering these expenses.

The surcharge requested herein would allow CMWC to recover the memorandum account balance, which totals \$2,607. The Division recommends that CMWC be authorized to assess a bi-monthly surcharge of \$2.34 per customer for each of 18 billing periods to recover the \$2,607 balance over three years. Generally, it is the Division's practice to recommend an amortization period of one year for under collections of less than 5% of gross revenues, an amortization period of two years for under collections of 5% to 10% of gross revenues, and an amortization period of three years for under

collections over 10% of gross revenues.⁴ Here, gross revenues reported for 2012 were \$18,425, and the total surcharge exceeds more than 10% of gross revenues. Thus, amortization of these costs over three years is appropriate.

Consistent with Public Utilities Code section 792.5, the Division recommends that CMWC track revenues collected under the surcharge in a balancing account and account for any over or under collected revenues in its next general rate case, or for any Commission audit, if the over or under collected balance exceeds 1% of the most recently adopted revenue requirement.

There are no Commission orders requiring system improvements, and there are no service problems requiring corrective action. CMWC has been filing annual reports regularly and currently complies with all Commission orders and regulations.

SERVICE, NOTICE AND PROTESTS

CMWC served AL 38 on February 6, 2012, and service complied with GO 96-B. Notice of the proposed rate increase was mailed to each customer on February 27, 2012. There were no letters of opposition to the requested increase.

COMPLIANCE

CMWC provides satisfactory water service to its customers. There are no Commission orders requiring system improvements, nor are there any service problems requiring corrective actions. The utility has been filing annual reports as required.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code Section 311 (g) (2), the otherwise 30-day period for public review and comment is being waived.

⁴ Standard Practice U-27-W, Paragraph 56.b.

FINDINGS

1. D.92-03-093, Ordering Paragraph 2, authorized CMWC to establish a memorandum account for unanticipated repair costs.
2. CMWC properly established the Unexpected Repair Costs Memorandum Account in AL-36 on September 13, 2010.
3. CMWC booked \$2,607 to this Unexpected Repair Costs Memorandum Account for costs incurred to repair leaks occurring from June 20, 2011 to January 13, 2012.
4. In Advice Letter (AL) 38, filed on February 6, 2012, CMWC requested authority to amortize these costs through a surcharge on its customers.
5. Division Staff reviewed the request and determined that recovery over three years of \$2.34 per customer for each of 18 billing periods is reasonable.
6. The resultant rate increase authorized in this resolution will not result in a rate of return greater than that last authorized for CMWC.
7. The charges hereby authorized are justified and the resulting rates are just and reasonable.
8. The repair costs are unanticipated and necessary for CMWC's service to its customers and are not covered by insurance proceeds.
9. The repair costs are not covered by other authorized rates; it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates; the utility acted prudently when it incurred these costs; and the amount of costs is reasonable.
10. Recovery of the surcharge should be over three years per Standard Practice U-27-W, Paragraph 56.b.
11. CMWC should track revenues collected under the surcharge in a balancing account and account for any over or under collected revenues in its next GRC, or for any Commission audit, if the over or under collected balance exceeds 1% of the most recently adopted revenue requirement.
12. Currently, CMWC complies with all Commission orders and regulations.

THEREFORE IT IS ORDERED THAT:

1. Cobb Mountain Water Company is permitted to transfer \$2,607 from its Unexpected Repair Costs Memorandum Account to a balancing account for recovery over a period of three years in 18 payments of \$2.34 each per customer.
2. Authority is granted under Public Utilities Code Section 454 to Cobb Mountain Water Company to file a supplemental advice letter with the revised Schedule No. 1A, Annual General Metered Service, as shown in Appendix A, and to cancel the corresponding presently effective rate schedule. The effective date of the revised rate schedule shall be five days after the date of filing.
3. Cobb Mountain Water Company shall track revenues collected under the surcharge authorized in this Resolution in a balancing account and account for any over or under collected revenues in its next General Rate Case, or for any Commission audit, if the over or under collected balance exceeds 1% of the most recently adopted revenue requirement.
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 August 2, 2012; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON

Commissioners

APPENDIX A
Sheet 1

COBB MOUNTAIN WATER COMPANY

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all services.

TERRITORY

The west half of Section 3, Township 11 North, Range 8 West, M.D.B.&M. and vicinity, near Cobb, Lake County.

RATES

Quantity Rate:

All water per 100 cu. ft. \$ 1.01

Annual Service Charge Per Meter Per Year

For 5/8 x 3/4-inch meter.... \$ 243.34

For 3/4-inch meter... \$ 365.01

For 1-inch meter... \$ 608.35

For 1-1/2-inch meter... \$1,216.70

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

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months he may elect, at the beginning of the calendar year, to pay prorated service charges on a bimonthly basis in accordance with the utility's established billing periods for water used.

APPENDIX A
Sheet 2
COBB MOUNTAIN WATER COMPANY

Schedule No. 1A
(continued)

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS (continued)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service size. Where initial service is established after the first day of any year the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial charge shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial charge shall be due the customer.

3. As authorized by the California Public Utilities Commission, all bills are subject (N) to a surcharge of \$42.05, to be collected over three years in 18 payments of | \$2.34 due at the time of bimonthly (every other month) billing beginning the | effective date of the supplemental advice letter, for unanticipated leak detection | and repair expense. (N)

4. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owning the company, service to subsequent tenants in that unit will, at the utility's option, be furnished to the account of the landlord or property owner.

5. Delinquent bills are subject to the late charges as set forth in Schedule No. LC.

6. All bills are subject to the reimbursement fee set forth in Schedule No. UF.