

Decision 89 04 014

APR 12 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER SERVICE COMPANY)
(U 60 W), a corporation, for an)
order authorizing it to establish a)
balancing account to include all)
recorded water production expenses)
in the Stockton District.)

Application 88-12-016
(Filed December 8, 1988)

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O P I N I O N

Summary of Decision

This decision authorizes California Water Service Company (CWS) to expand the Stockton District's purchased water balancing account, established by Decision (D.) 85138, to include expenses for purchased power and pump taxes.

Background

CWS is an operating public utility corporation with headquarters in San Jose, California. CWS provides water service in various localities in California including its Stockton District which serves the City of Stockton and surrounding unincorporated territory in San Joaquin County.

On December 8, 1988, CWS filed Application (A.) 88-12-016 requesting authority to include purchased power costs and pump tax expenses, for its Stockton District, into the balancing account established in D.85138 to record purchased water costs.¹

¹ Although CWS, in the caption of the application, requests authority to establish a balancing account to include all water production expenses, it is in fact seeking authority to expand the balancing account established in D.85138 to include all production expenses.

D.85138, in A.55686, approved the terms of a contract for treated water between Stockton East Water District (SEWD), CWS, the City of Stockton, and two other County Maintenance Districts. Under the terms of the contract, CWS was entitled to 92.5% of SEWD's water treatment plant and was correspondingly responsible for 92.5% of the annual costs of operating the facility including repayment of the debt incurred in building the plant. In D.85138, the Commission found that a supply of treated water was required from SEWD's water treatment plant in order to alleviate salt water intrusion into the water table under the Stockton District's service area. The decision also authorized a rate increase to cover the cost of purchased water (CWS's supply had been obtained entirely from wells up to this time) and established a balancing account that compared monthly purchased water payments with revenues obtained from rates authorized for the purpose of meeting the costs of purchased water.

Because of recent changes in water needs in the Stockton area, parties to the 1975 contract entered into a Second Amended Contract in September 1987. The principal rate-making effect of the Second Amended Contract is the reallocation of water entitlements and cost responsibility among the contractors. This reallocation is to be based on the ratio of each contractor's total water production each year from all sources of supply to the total production of all contractors during the year. For example, if CWS's total water production for the 1987-1988 water year (water years run from April 1 to March 31 under the contracts) totals 63% of the water production of all contractors combined, then it would be entitled to 63% of the output of the water treatment facility during the 1989-1990 water year and will pay 63% of the total operating costs including servicing of the outstanding debt. CWS estimates that it will be allocated approximately 63% of the annual production from the treatment plant and will pay 63% of the costs during the initial years of this contract. This will result in an

annual reduction in purchased water costs of approximately \$1,070,000 which will be offset by increases in purchased power and additional pump taxes of about \$190,000 on a test-year basis due to increased well pumping.

The Second Amended Contract does not become effective until the City of Stockton completes the installation of a 48-inch pipeline from the SEWD treatment plant to the City's principal service area in northern Stockton. The City believes this pipeline will be ready for service sometime in late November of 1989. However, for establishing new cost levels, the parties have agreed to begin reallocation of costs starting February 1, 1989.

Under the typical balancing account procedure in effect in the Stockton District for all appropriate expenses except purchased water, the estimated \$190,000 increase in purchased power and pump tax expenses resulting from the implementation of the Second Amended Contract would not be recovered by CWS because it is caused by an increase in the percentage of supply to be delivered from wells (a change in mix) and not by an increase in the power rates or pump tax rate. In order to recover the increased expenses for purchased power and pump tax, CWS requests authority to include them in the same balancing account which was established for purchased water costs in D.85138. This will result in the creation of a balancing account for total water production expenses (purchased water, purchased power and pump taxes) for the Stockton District.

While CWS requests authority to record the purchased power and pump tax expenses into the balancing account for water production expenses, it also proposes to reduce its rates to reflect the reduction in purchased water costs including the reduction in debt service payments. In addition, CWS proposes to reduce rates to bring the total water production balancing account balance to zero over a two-year period.

Water Utilities Branch's Protest to the Application

On January 6, 1989, the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division filed a protest to the application.

In its protest, Branch contends that CWS has not made a showing that the requested balancing account treatment will not unjustifiably raise CWS's earned rate of return for the Stockton District above the authorized level. Therefore, Branch recommends that CWS's request be granted on ex parte basis only on the condition that CWS is required to file a general rate case application in 1989 at the same time it files general rate case applications for other districts. Branch also recommends that CWS be required to file an advice letter requesting its proposed rate reduction within 30 days of the Commission's order.

On January 20, 1989, CWS filed a response to Branch's protest in which it agreed to file a general rate case application for its Stockton District in 1989 at the time it next files general rate increase case applications for any of its other district. CWS expects to tender the Notice of Intent in April 1989.

Discussion

We believe that Branch expresses appropriate concern regarding the possibility of the Stockton District earning higher than the authorized rate of return. Branch's concern is particularly significant since the last general rate case decision for the district was issued in 1983. Therefore, we will authorize CWS to record the purchased power and pump tax expenses in the purchased water balancing account established in D.85138 on the condition that CWS tender a Notice of Intent to file a general rate case application for the Stockton District by June 1, 1989, and file its application when permitted by the Commission's regulatory lag plan thereafter.

Also, as recommended by Branch, we will require CWS to file an advice letter, within 30 days of this order, requesting

rate reduction to reflect the estimated reduction in purchased water cost including the reduction in debt service payments to SEWD. The advice letter should also include request for rate adjustment to reduce the total water production balancing account balance to zero over a two-year period.

Findings of Fact

1. CWS requests authority to include purchased power and pump tax expenses for its Stockton District, into the balancing account established in D.85138 to record purchased water costs. This will result in the establishment of a balancing account for total water production expenses.
2. D.85138 authorized CWS to establish a balancing account to record the monthly purchased water payments to SEWD and the revenues obtained from the rates authorized to offset the purchased water costs.
3. Due to changes in the water needs in the Stockton area, CWS is expected to obtain a greater portion of its water supply from wells which will increase CWS's expenses for purchased power and pump taxes.
4. Since the increase in purchased power and pump tax expenses will result from a change in the percentage of water delivered from wells and not by a change in power rate or pump tax rate, CWS will not be able to recover these expenses through the balancing account procedure in effect for the Stockton District.
5. Branch filed a protest to CWS's request.
6. Branch recommends that CWS's request be granted ex parte only if CWS is required to file a general rate case application for the Stockton District in 1989 at the time CWS files a general rate case application for any of its other districts.
7. CWS has agreed to tender a Notice of Intent to file a general rate case application for its Stockton District before May 1, 1989.

8. Concurrent with the issuance of a decision in this proceeding, CWS proposes to request reduction in its rates for the Stockton District to reflect the reduction in purchased water costs including the reduction in debt service payments.

9. CWS also proposes to request rate adjustment to reduce its total water production balancing account balance to zero over a two-year period.

10. Branch recommends that CWS be required to file an advice letter requesting its proposed rate reduction within 30 days of the Commission's order.

11. No other party has filed a protest.

12. There is no reason to delay granting the authority requested in this application.

Conclusions of Law

1. CWS should be authorized to record its purchased power and pump tax expenses, for the Stockton District, into the balancing account established by D.85138 for cost of purchased water from SEWD.

2. CWS should tender a Notice of Intent to file a general rate case application for the Stockton District by June 1, 1989, and should file its application when permitted by the Commission's regulatory lag plan thereafter.

3. Within 30 days of the effective date of this order, CWS should file an advice letter requesting rate reduction to reflect the estimated reduction in purchased water cost including the reduction in debt service payments. The advice letter should also include the request for rate adjustment to reduce the total water production balancing account balance to zero over a two-year period.

4. This order should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. California Water Service Company (CWS) is authorized to record its expenses for purchased power and pump tax for the Stockton District in the balancing account established by D.85138 for purchased water cost.

2. CWS shall tender a Notice of Intent to file a general rate case application for the Stockton District by June 1, 1989, and shall file its application when permitted by the Commission's regulatory lag plan thereafter.

3. Within 30 days from the effective date of this order, CWS shall file an advice letter, for the Stockton District, requesting rate reduction to reflect the estimated reduction in the cost of purchased water from the Stockton East Water District, including the reduction in debt service payments. The advice letter shall include request for rate adjustment to reduce the Stockton District's total water production balancing account balance to zero over a two-year period.

4. This proceeding is closed.

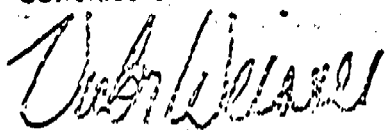
This order is effective today.

Dated APR 12 1989, at San Francisco, California.

G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

Commissioner Frederick R. Duda
being necessarily absent, did
not participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Weissor, Executive Director