

Decision 89 11 070 NOV 22 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application)
of Camp Meeker Water System,)
Inc. for a rate increase for)
water service to offset costs of)
importation of water.)

Application No. 87-04-062
(Filed April 30, 1987)

ORDER DENYING REHEARING OF D.87-10-087

CAMP MEEKER RECREATION AND PARKS DISTRICT has filed an application for rehearing of Decision (D.) 87-10-087, in which the Commission approved most of Camp Meeker Water System, Inc.'s (CMWSI) water hauling expenses from June 24, 1987 through November 30, 1987. We have carefully considered all the arguments raised in the application. We have reviewed past decisions of the Commission regarding CMWSI, including D-89-01-033 issued October 12, 1989. Based on this review, we find these special water hauling expenditures to be reasonable and necessary during this unusually dry period.

We therefore deny rehearing.

Our previous INTERIM ORDER PROHIBITING CUSTOMER DISCONNECTS FOR NONPAYMENT OF THE \$82.18 SURCHARGE FOR WATER HAULAGE (D.88-05-041 issued May 11, 1988) is modified to permit CMWSI to collect the surcharge amount (\$82.18) over a period of one year in monthly installments of \$6.85 commencing January 1, 1990.

In addition, the prohibition against customer disconnect for nonpayment of this surcharge as ordered in D.88-05-041 is lifted.

Therefore, good cause appearing,

IT IS ORDERED that:

1. The application of Camp Meeker Recreation and Parks District is denied.

2. D.88-05-041, issued May 11, 1988, is modified to permit CMWSI to collect the surcharge amount (\$82.18) over a period of one year in monthly installments not to exceed \$6.85 commencing January 1, 1990.

3. The prohibition against customer disconnect for nonpayment of this surcharge as ordered in D.88-05-041 is lifted. This order is effective today.

Dated NOV 22 1989, 198_, at San Francisco, California.

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

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

Wesley Franklin

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WESLEY FRANKLIN, Acting Executive Director

WB

State of California

Public Utilities Commission
San Francisco

MEMORANDUM

Date : May 6, 1988
To : The Commission
(Meeting of May 11, 1988)
From : Patrick S. Berdge
P. U. Counsel III

PSB

File No.:

Subject : Application of a customer group (CAMP MEEKER RECREATION AND PARKS DISTRICT) (District) for rehearing of D.87-10-087 in which the Commission granted Camp Meeker Water System, Inc.'s (CMWSI) application for rate increase for payment of water haulage charges from June 24, 1987 through November 30, 1987 in the amount of \$29,091 (a one-time surcharge of \$82.18 per customer). (No stay, 60 days expired 1/29/88.) (Commissioner N/A; ALJ Baer)

RECOMMENDATION: Grant limited rehearing concerning the issue of increased rates for water haulage charges in 1987; the remainder of D.87-10-087 does not require modification.

FACTS: During the summer and fall of 1987, CMWSI was forced to import water to supplement its own sources. Similar water outages led to importation of water in late 1986 and early 1987. On June 24, 1987, the Commission ruled in D.87-06-059 that CMWSI could "contract for water haulage and accumulate the expenses for those services in a memorandum account subject to later recoupment after staff review of reasonableness..." (Id. at p. 3.) The charges for importation of water for the period from November 1986 through January 31, 1987 were \$12,005. Since these charges predated CMWSI's application (filed April 30, 1987), they were disallowed in D.87-07-094 on grounds of retroactive ratemaking. However in that Decision, the Commission granted a rate increase to reimburse CMWSI for the water haulage charges incurred after the date of application for rate increase.

The Commission found that 289 truck loads of water were imported at a cost of \$20,981.91 for the period from June 24, 1987 through August 27, 1987. The projected charges for September, October, and November, 1987 were set in D.87-10-087 at \$16,170.75. The total importation charges incurred after the date of Commission authorization were determined to be \$37,152.66. Certain miscellaneous charges raised this figure to \$38,091. However, CMSWI already had billed its customers \$9,000 for the post-June 24 period as previously authorized in D.87-07-094. (D.87-07-094 had authorized \$12,000 and further ordered that this amount and

future charges were to be billed in increments.) D.87-10-087 subtracted this amount from the total charges of \$38,091 resulting in unreimbursed charges in the amount of \$29,091.

Consequently, the total water haulage charges of \$38,091 (for the period June 24, 1987 through November 30, 1987) were charged to ratepayers in three installments of \$17.00, \$8.60, and \$82.18 for a total surcharge of \$107.68 per customer.

ISSUES: Were the water outages from June 24, 1987 through November 30, 1987, caused by climatic conditions beyond the control of CMWSI or, instead, did CMWSI fail to mitigate these outages through its own imprudent management, for example, in failing (i) to upgrade its plant and facilities, or (ii) to comply with repeated directions of the Commission? Incidental to this review of prudent management is the issue (iii) of whether CMWSI properly ensured minimum standards of water quality. If the outages were due to a combination of these factors, what proportion is attributable to imprudent management?

DISCUSSION: In 1980 CMWSI's rates produced annual revenues of \$16,197. At the end of that year the Commission approved a general rate increase of 52.7%. In 1983 the Commission permitted an offset increase of 12.7%. In 1984 it granted a general rate increase of 19.5%. In 1985, CMWSI was permitted a step increase of 4.0%. In 1986 the Commission permitted rates to increase 17.3%. In 1987 a step increase of 2.0% was effected. The water haulage charges permitted have increased rates an additional 66.68% for the 1987 calendar year. In seven years rates (not including the SDWBA and water haulage surcharges) have more than tripled.

Unrelated to these rate increases is the \$360,000 Safe Drinking Water Bond Act (SDWBA) loan approved by D.86-02-006. Beginning in 1985 a surcharge of \$21,250 was assessed enabling CMWSI to pay principal and interest on these improvements.^[1] The surcharge was increased 9.0% in 1986 to \$23,729. It will be necessary to increase the surcharge in the future. This surcharge alone has increased the cost of service to each customer by approximately 1.5 times the 1980 rate structure.

The water haulage charges of \$38,091 permitted under D.87-07-094 and D.87-10-087 amounts to a 66.68% increase in the 1987 total revenues. Adding these charges to prior rate increases and the SDWBA surcharge, CMWSI's total 1987 revenues (\$95,209) are almost six times as great as its 1980 revenues (\$16,197) even though there has been no increase in the number of customers.

1 "The \$20,700 (sic) yearly increase under the SDWBA loan surcharge thus would increase Camp Meeker's revenues by approximately 61%." (Decision No. 93594 (1981) at p. 5.)

A. Failure to Make Improvements:

Prior to 1981 rates were generally stagnant. Few improvements were made and service deteriorated. The Commission has repeatedly cautioned CMWSI to increase investment and refurbish plant and facilities.

As early as 1932 the Commission began imploring the water company to rebuild its plant and facilities. "It is absolutely necessary that steps be taken immediately to rehabilitate and generally enlarge the delivery capacity of the pipe lines (sic)..." (Decision No. 24567 (1932) at pp. 5-6.) "These [customers] complain that the management is inefficient, the water supply inadequate and deliveries interrupted because of the dilapidated condition of the storage tanks." (Decision No. 34244 (1941) at p. 1.) At that time, "...such repairs would have cost a nominal sum only and would have required at the most but a few days work by unskilled labor." (Id. at p. 4.)

The present owners of the system have failed to recognize their responsibility as operators of a public utility, and the present proceeding, and the current record only serve to emphasize that deficiencies long inherent in the system still persist...residents at certain locations in the upper levels of the camp fail to receive any water while other residents at lower levels and on the same lines obtain the available water. (Emphasis added.)
(Decision No. 44303 (1950) at p. 3.)

CMWSI's present owners took possession of the water company in 1951. But still in 1960, in Decision No. 60283, the Commission felt compelled to reiterate its concerns:

In response to many informal complaints... staff engineers have inspected...[the] system, and found such complaints warranted. Efforts to prevail upon the Chenoweths to improve the service were largely ineffective. Their primary interest being in the harvesting of the timber from land acquired from the former Meeker estate...This resulted in allowing the water system to deteriorate (at p. 6.)...

The third step [after acquiring a more adequate water supply and constructing a system of feeder mains] will be the progressive replacement of a large proportion of the existing distribution system which is far below the minimum standards...The small pipelines [45,000

feet of the system's 62,000 feet was 1 and 1/2 inch or less in diameter (see p. 5)] were never adequate to take care of the present number of customers and their capacities have been much reduced during the past 50 or 60 years by normal processes of deterioration (at p. 8).

In general, [the customers'] testimony serves to emphasize that deficiencies long inherent in the system still persist. Even in years of copious rainfall, the water supply to customers of the utility has been insufficient due to maldistribution of the available supply, caused largely by the arrangement of the distribution system and the preponderance (sic) of small-diameter piping. Customers higher up have often been unable to obtain water when those at lower elevations are using water. Permanent residents claimed that such conditions exist even in the winter months and they grow worse in summertime... (Emphasis added.) (at pp. 8-9.)

Having assumed the obligations of a public utility, it is incumbent upon [CMWSI] to recognize its responsibility and to take whatever steps are necessary and feasible to serve the public interest (at p. 12).

To this end the Commission ordered CMWSI to file: (a) details of any and all improvements made since August 1, 1961; (b) information concerning procurement of new and additional water supplies; (c) a plan for additional storage facilities; and (d) a plan for the installation of a pipeline capable of delivering water from the Acreage and Dutch Bill Creek wells to the additional storage [in (c) above] (see Decision No. 62831 (1961) at p. 2-3).

In Decision No. 65119 (1963) the Commission noted that, "The final solution lies in a complete rebuilding of the distribution system." (at p. 2.) In 1980, the Commission found again that customers:

...frequently experience prolonged water outages and inordinate low water pressures during the late summer and early fall of the year... To a lesser degree [customers] and their witnesses experience unannounced and unexpected water outages and low pressure during other times of the year. (Emphasis added.) (Decision No. 92451 (1980) at p. 16.)

B. Failure to Comply with Commission Orders and to Prudently Manage:

CMWSI's lack of prudent management in rebuilding its distribution system, as repeatedly ordered by the Commission, is emphasized in the 1980 decision:

...since January 1, 1969 the water company has claimed \$9,973 as depreciation expense and has expended only \$3,919 on plant additions for the same period. Since 1971 the water company has expended only \$393 on plant additions. During five of those ten years, the water company made a profit totaling \$6,739, and in the remaining five years had a loss totaling \$24,212 for an overall net loss for that period of \$17,473. This utility is not being forced to operate at a loss. The Commission will entertain a request for rate relief at any time, but it is incumbent upon the utility to initiate and substantiate the request. [CMSWI's] Application No. 59317 for a substantial increase in rates is the subject of Decision No. 92450 issued today [granting a 52.7% rate increase]. (Decision No. 92451 (1980) at p. 12.)

The Decision ordered CMWSI to make six improvements "immediately" with the money from a loan from the Department of Water Resources under the SDWBA of 1976. While Decision No. 92451 references CMWSI's 1979 loan application, CMWSI did not obtain Commission authority to enter into the necessary contracts until October 6, 1981. (See Decision No. 93594.) The loan was increased and CMWSI's authority expanded in D.86-02-006 (February 5, 1986).

One of the grievances listed in Decision No. 92451 (1980) was: "That many mains throughout the system protrude above the surface of the ground; that other mains are suspended from trees..." (at p. 6). This is supported by staff's report in Application 83-11-054 dated December 18, 1987 and the Engineering Evaluation and Feasibility Study: Camp Meeker Water System, Harris Consultants, Inc. (December, 1987 at p. 1-1). Staff confirms both allegations. Above-surface pipes may decay at a faster rate thereby increasing the likelihood and degree of leakage.

B.1. Water Quality:[2]

One of the six ordered improvements in the 1980 Decision (No. 92451) was:

The installation of electrically operated hypochlorinators [at each tank receiving water directly from a surface water source]...will insure...the quality of water...(at p. 17).

While several electrically operated hypochlorinators were purchased and installed as ordered, staff believes they are no longer operable because CMWSI has failed to properly maintain them.

If DHS has found CMWSI's water quality to be substandard, even sporadically, and if this is due to the water company's failure to comply with previous Commission Orders or DHS directives, the Commission should consider DHS concerns and any grounds contained in any DHS citations.[3] Further, the Commission should consider whether the addition of imported water directly into water from CMWSI's sources might contaminate the imported water and serve only to increase CMWSI's delivery of substandard water. The ratepayers should not be charged for importing water subsequently contaminated by CMWSI source water.

C. SDWBA Loan Improvements:

All but \$24,000 of the \$360,000 SDWBA loan has been spent. The remaining monies are earmarked for improvements relating to water quality as demanded by DHS. The improvements ordered by the Commission include: slow sand filters; booster pumps; connection of springs to water mains; well stations, storage tanks; "Y" short-cut distribution line connections; and replacement of existing distribution lines.

2 "Water Quality and Treatment: The water contains significant fecal contamination and is not filtered and reliably disinfected. Turbidity and color standards are violated frequently, especially during times of runoff. (Since publication of the DOHS [DHS] report [1982], two slow sand filter treatment plants and several chlorination stations have been built using SDWBL funds, partially alleviating this problem.)" Engineering Evaluation and Feasibility Study, supra. at p. 4-6.

3 Over the last 18 months DHS allegedly has cited CMWSI twice for bacteriological contamination and failure to retest its water. The residents of Camp Meeker are without sewage connections and use septic tanks for sewage disposal. Many of these septic tanks are old.

Although these improvements are significant, 90-year-old distribution pipe is still in service, water outages persist, leakage is alleged to be substantial (see District's petition for rehearing of D.87-10-087 at p. 4 and Exhibit 4 attached thereto), water quality may be periodically substandard, and revenues (including SDWBA loan and water haulage surcharges) have increased almost six-fold in seven years.

D. The Commission Should Consider the Issue of CMWSI's Possible Imprudent Management Before Granting a Rate Increase for Water Haulage Charges in D.87-10-087.

District alleges as one ground for appeal (the others were legally unsupported or otherwise de minimis) that CMWSI has been imprudently managed. Although the application for rehearing specifically refers only to persistent water outages even in years of abundant rainfall and excessive leakage of the distribution pipes, the record in this proceeding and in prior proceedings reveal that CMWSI periodically has had problems in the delivery of water meeting minimum standards of water quality and further, that CMWSI has benefited from Commission approved rate increases of nearly 500% over the last seven years. More importantly, CMWSI's past record demonstrates that it repeatedly has failed to comply with prior Commission concerns and Orders directing that it upgrade plant and facilities (especially as to distribution lines and leakage) for the period from 1951, when CMWSI's present owners took possession, to the present. These improvements might have mitigated water shortages during seasonal dry periods and thus lowered the cost of water importation. D.87-10-087 does not address these issues. Accordingly, the Legal Division recommends that the Commission grant a limited rehearing to determine whether the charges for water haulage were reasonable. [4]

The Order Granting Limited Rehearing should include provisions preserving the status quo ante pending a final determination of the Commission.

PSB:kad

4 Because these issues were not raised at the hearing in this matter, it would appear there was no legal error in the present decision. Nevertheless, we recommend a limited rehearing so that the Commission can determine whether the increased rates for water hauling are reasonable and justified as required by Pub. Util. Code §§ 451 and 454.

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application)
of Camp Meeker Water System,)
Inc. for a rate increase for)
water service to offset costs of)
importation of water.)
_____)

Application No. 87-04-062
(Filed April 30, 1987)

ORDER GRANTING LIMITED
REHEARING OF D. 87-10-086

CAMP MEEKER RECREATION AND PARKS DISTRICT has filed an application for rehearing of Decision (D.) 87-10-087, in which the Commission approved most of Camp Meeker Water System, Inc.'s (CMWSI) water hauling expenses from June 24, 1987 through November 30, 1987. We have carefully considered all the arguments raised in the application. We have reviewed past decisions of the Commission regarding CMWSI. Based on this review, we are concerned with whether CMWSI has prudently managed its plant and facilities so as to reasonably prevent or mitigate water shortages during seasonal dry periods which have caused it to incur charges for the importation of water. More particularly, we are concerned with whether CMWSI has managed its plant and facilities in a manner consistent with the Commission's prior orders concerning replacing and/or adding distribution pipes, installing pumps to redistribute water to maximize storage capacity, and repairing leaks. In addition, we are concerned with whether CMWSI has managed its plant and facilities in such a manner as to ensure minimum standards of water quality. We are especially concerned that water from CMWSI's own sources, if substandard, should not contaminate the imported water.

We therefore grant a rehearing limited to the issue of whether CMSWI's rates may be raised to pay for its water hauling expenses from June 24, 1987 through November 30, 1987 and if so, what the amount of such increase should be.

It is our intention to preserve the status quo pending the limited hearing we hereby grant. Therefore, those customers of CMWSI who have failed to pay the previously ordered water haulage surcharge of \$82.18, or any portion thereof, shall not have their service discontinued. CMSWI may retain, subject to refund, those surcharge payments already made by its customers pending a final determination of the Commission of the amount of surcharge, if any.

Therefore, good cause appearing,

IT IS ORDERED that the application of Camp Meeker Recreation and Parks District is granted for the limited purpose of reconsidering CMWSI's request to raise rates to pay water haulage fees for the period of June 24, 1987 through November 30, 1987.

IT IS FURTHER ORDERED that:

1. The customers of CMWSI who have not paid the previously ordered surcharge of \$82.18, or any portion thereof, shall not have their service discontinued for failure to pay this surcharge, pending further order of the Commission.

2. All revenues collected under D.87-10-087 to recover water haulage charges for the period June 24, 1987 through November 30, 1987 shall be collected subject to refund and booked into a balancing account; the disposition of this balancing account shall be determined following the rehearing of D.87-10-087.

3. The limited hearing shall be held at such time and place and before such Commissioner or Administrative Law Judge as shall hereafter be determined.

4. The Executive Director shall provide notice of such rehearing to the parties hereto, in the manner prescribed by Rule 52 of the Commission's Rules of Practice and Procedure.

5. Except as specifically granted herein, rehearing of D.87-10-087 is denied.

This order is effective today.

Dated _____ at San Francisco, California.