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ORIGINAL

Decision No. 91923 JUN 17 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

QUINCY WATER COMPANY USERS,)
et al.,)

Complainants,)

vs.)

QUINCY WATER COMPANY, INC.,)
Defendant.)

Case No. 10776
(Filed August 23, 1979)

Darrell L. Powell, Karen Gilliland, and
Joyce E. Bivens, for Quincy Water
Company Users, complainants.
Jan Klement, Attorney at Law, for Quincy
Water Company, Inc., defendant.
A. Chocas, for the Commission staff.

O P I N I O N

Introduction

Case No. 10776 was initiated by a complaint filed on August 23, 1979, signed and verified by Darrell L. Powell (Powell) as the chairman of the Quincy Water Company Users (Users), against Quincy Water Company, Inc.(Company). The essential allegations of the complaint are that the rates are too high and that the meter rates are unfairly designed. Attached to the complaint is a petition protesting "rate increases granted by the Public Utilities Commission" to the Company, signed by 117 individuals.

On October 3, 1979, Company filed a petition to dismiss the complaint, alleging certain technical insufficiencies in the filing and asserting res judicata. By letter dated November 1, 1979, the assigned Administrative Law Judge denied the motion. On

November 19, 1979, Company filed its answer to the complaint and a "Notice of Appeal" to the Commission from the ruling on the petition to dismiss.

Hearing on the complaint was held at Quincy on March 11 and 12, 1980, before Administrative Law Judge Patrick J. Power. The hearing was well-attended by the public and a number of persons made statements or offered testimony on the record. The matter was submitted subject to the filing of concurrent briefs on April 1, 1980.

Background

This matter needs to be understood in the context of two prior Commission actions. By Decision No. 88973 in Application No. 57406, dated June 13, 1978, Company was authorized to execute a contract with the Department of Water Resources (DWR) for a \$550,000 loan. The loan funds were derived from the proceeds of the Safe Drinking Water Bond Act of 1976. The decision authorized Company to proceed with metering its system, and provided for a surcharge to recover the costs of the loan. The amount of the surcharge was calculated on both a quantity and flat rate basis.

By Resolution No. W-2511 dated May 22, 1979, the Commission authorized Company to increase its rates by \$20,200 annually. A central feature of the resolution was an inverted rate design applicable to metered customers. Also, the minimum charge rate that allowed a quantity of water with the minimum charge was changed to a service charge rate with the commodity rate applicable to all of the water. The rate design was based on the assumption that a typical residential customer would use 1,100 cubic feet per month.

Meanwhile, Company has proceeded with metering its system. As of the hearing, about half of the approximately 660 customers were metered. Nearly all of the remaining unmetered customers are residential.

Summary of the Record

The timing of Resolution No. W-2511 resulted in the inverted rate design being initially applied in the summer months, when water usage is highest. The overwhelming concern of the persons appearing at the hearing was their high bills resulting from the meter rates. They recited cases of bills that were many times greater than their own previous bills and the bills of customers still on flat rates. They told of their efforts to reduce bills, and the extreme conservation measures taken. Several stated that they let their lawns and gardens die in order to be able to afford water service for essential purposes.

A contributing factor in the high bills was shown to be the surcharge for the DWR loan. Customers billed on a quantity basis contend they contribute substantially more of the surcharge payments than do the flat rate customers.

Mr. Alex Chocas of the Hydraulics Branch of the Utilities Division testified on behalf of the Commission staff. Mr. Chocas sponsored an exhibit consisting of a number of tables that included the following: a billing schedule by each type of meter showing the percentage increase or decrease in rates for comparable usage of water; the company's flat rate schedule; a table showing the conversion of cubic feet to gallons; an unaudited summary of earnings; and a bimonthly billing schedule. Mr. Chocas discussed some of the policy considerations underlying the adopted rate design and described the factual context that was the basis for the rate calculations. He also discussed the DWR surcharge and announced that he was informed that the Finance Division of the Commission staff supports a "flat service charge" surcharge over a quantity-based surcharge.

Company offered the testimony of two witnesses: Philip S. Miller, technical manager of the company, and Robert G. Dellinger, business manager and corporate president. Mr. Miller

testified regarding the improvements being made in the system and the Company's progress in installing meters. He explained the way in which customers have been selected for metering and testified regarding the status of 17 customers who receive water without charge due to historical water rights.

Mr. Dellinger testified regarding the status of the surcharge revenues and the schedule of payments to DWR. He described his operation of the Company relative to expenses incurred and not charged to the ratepayers. He discussed Company's financial condition and the likely need for additional rate relief, particularly if the meter rates cause consumption to be reduced substantially.

By late-filed exhibit Company provided a profile of its system, showing a breakdown of customers by size of meter, residential or commercial, and monthly usage, as well as by flat rate schedule.

Discussion

It is now obvious that serious problems have arisen in making the transition from flat rates to meter rates in Company's system. The record supports grave doubts about the adequacy of the data base underlying our earlier determination of reasonable meter rates. The "typical residential customer" conclusion initially used to set meter rates may not accurately reflect unique conditions in Quincy.

This is always a risk when meter rates are applied before the entire system is metered and usage characteristics of the system as a whole are known. Still, the Commission's experience with water systems throughout the state has provided a level of confidence that reasonable rates can be developed. We have endeavored to do so in this case. Based on the record it is fair to concede that some of the current meter rates may be unreasonable. Therefore the authority to charge meter rates is partially vacated.

The insufficiency of the data base is attributable to the order in which Company has proceeded to meter its customers. As of the time of the study that was the basis of the adopted rate design, all, or virtually all of the metered customers were commercial. Thus, an unusual feature that would impact significantly on residential use, such as relatively porous soil, would not be reflected in the original results.

Another feature of the adopted rate design that requires reexamination is the relative level of the commodity charges associated with larger and smaller meters. Prior to Resolution No. W-2511, the commodity rates were uniform. In the inverted rates, the second block rate for smaller meters is 34 percent higher than the third block rate for larger meters. The "typical residential customer" pays an average commodity rate (excluding the surcharge) of about 60 cents per 100 cubic feet, while the "average" large user pays an average commodity rate (excluding the surcharge) of about 43 cents per 100 cubic feet. Thus the average commodity rate paid by the "typical" residential customer is nearly 40 percent higher than the average commodity rate paid by the "average" large user. This disparity is too severe to be allowed to continue.

We are also convinced that the continuation of the DWR surcharge on a quantity basis is unreasonable, for the reasons that it discriminates unfairly between metered and flat rate customers who may use the same amount of water, and that it creates uncertainty regarding the amount of revenue that will be produced. Neither Company nor staff made an affirmative proposal as to how the surcharge should be spread.

It should be noted that Decision No. 88973 ordered establishment of a separate balancing account in which all surcharge revenues and payments to DWR, were to be recorded. This prevents any surcharge overcollections from accruing to the benefit of the utility. It may be necessary to periodically adjust the surcharge rates to avoid overcollections or undercollections. Such changes should be accomplished by normal advice letter procedures.

Having recognized these deficiencies in the present rate structure, we face the difficult problem of the remedy. This is simple enough for residential customers, who can be restored to flat rate service, but more difficult for commercial customers for whom the Company has no corresponding tariffs on file for flat rates.

For commercial customers on meters smaller than 1½ inches, we conclude that the appropriate treatment is the corresponding residential flat rate schedule. Based on the usage data, some of these customers will incur a rate increase, partly because they have been contributing only slightly to the surcharge.

With respect to the larger users (meters 1½ inches and larger) we consider it reasonable to leave intact the basic commodity rates adopted by Resolution No. W-2511. These rates were not so severely inverted, and have not caused the same extreme reaction as with residential rates. The surcharge applicable to larger users, should be adjusted to the size of the meter. For this purpose the surcharges adopted in Decision No. 88973 are reasonable.

We recognize the imperfections of the resulting rate design. However, based on the record it is fair to characterize these rates as interim, since Company has stated its intention to apply for additional relief. Deficiencies in these "interim" rates can be relieved (if not cured) in such subsequent proceedings. Meanwhile Company should proceed to meter its system. The public should be fully informed as to options regarding size of meters.

We are satisfied that this action will not unduly increase or decrease the utility's earnings. The meter rates were designed so that the "typical residential customer" was expected to pay about the same revenue as a flat rate customer, on an annual basis. The "interim" rates will provide more stability, both in the recovery of base rates and the surcharge, and should ameliorate the revenue deficiency effects of the extreme conservation measures instituted by metered residential customers.

The other matter that requires brief discussion is the historic water rights and free uses of water. The record indicates that 17 customers receive service without charge.

This circumstance is explained as resulting from historic water rights. Counsel for Company indicated that the cost of litigating such rights might exceed the resulting value to the Company, as a basis for allowing the rights to remain undisturbed. We are satisfied that no adjustment is required in this proceeding to recognize the effect of such rights. However, we do expect Company to provide a complete showing with regard to the nature and extent of uncompensated for uses of water in conjunction with its next rate increase proceeding. Also, we see no reason why such uses should not be metered so that data would be available as to individual users and their uses within the specifications of their particular rights.

Findings of Fact

1. Company is in the process of metering its system pursuant to a Commission directive in Decision No. 88973.
2. Company's system is approximately one-half metered.
3. Nearly all remaining unmetered customers are residential.
4. By Resolution No. W-2511 the meter rates were inverted.
5. The rates applicable to meters less than 1½ inches were more steeply inverted than were the rates applicable to larger meters.
6. The steeply inverted rates have produced very high bills in the summer months.
7. The data base underlying the determination of the "typical residential customer" is insufficient.
8. The meter rates applicable to meters smaller than 1½ inches are unreasonable.

9. Decision No. 88973 imposed a surcharge to pay off a loan by DWR.

10. The surcharge was imposed on both a quantity and flat rate basis.

11. The surcharge discriminates unfairly between meter and flat rate customers.

12. The quantity-based surcharge creates uncertainty over the stability of the recovery.

13. Customers currently charged meter rates on meters smaller than 1½ inches should instead be billed on the appropriate flat rate schedule, for both base rates and the surcharge.

14. Customers served on meters 1½ inches and larger should be assessed the surcharge based on the following:

<u>Size of Service</u>	<u>Monthly Surcharge</u>
1½ inch	\$12.50
2 inch	20.00
3 inch	37.50
4 inch	62.50

15. This "interim" rate design should not unduly impact Company's earnings.

16. Company should provide more information regarding historic water rights and free uses of water in its next rate increase application.

17. Because unreasonable rates are currently being charged, the effective date of this order should be the date hereof.

Conclusions of Law

1. The complaint conforms sufficiently with Commission rules of practice and procedure.

2. The complaint states a cause of action.

3. The Administrative Law Judge's ruling on Company's petition to dismiss is affirmed.

4. Meter rates applicable to meters smaller than 1½ inches should be vacated and appropriate flat rates should apply.

5. The DWR surcharge should be recovered on a flat rate basis.

O R D E R

IT IS ORDERED that:

1. The authority of Quincy Water Company, Inc. to charge meter rates to customers served on meters smaller than 1½ inches is vacated.

2. The authority of Quincy Water Company, Inc. to collect the Department of Water Resources (DWR) surcharge on a quantity basis is vacated.

3. Customers presently billed on meter rate schedules for meters smaller than 1½ inches shall be billed on the appropriate residential flat rate schedule for base rates and surcharge.

4. Customers served on meters 1½ inches and larger should be assessed the DWR surcharge as stated in Finding No. 14.

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5. Quincy Water Company, Inc. shall provide complete information regarding historic water rights and free uses of water at the time of its next rate increase application.

The effective date of this order is the date hereof.

Dated JUN 17 1980, at San Francisco, California.

John G. Boyer
President
James L. Sturgeon
Alaine T. Edgell
Thomas W. Lewis
Commissioners

Commissioner Richard D. Gravello, being necessarily absent, did not participate in the disposition of this proceeding.