

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3526
October 24, 1990

R E S O L U T I O N

(RES. W-3526), SAN JOSE WATER COMPANY (SJW)
ORDER AUTHORIZING A SURCHARGE PRODUCING
\$2,649,800 OR 3.5% ADDITIONAL REVENUE.

By Advice Letter (AL) 228, filed August 21, 1990, SJW requested authority under General Order 96-A and Section 454 of the Public Utilities Code to impose a surcharge producing \$2,709,700 of additional revenue over a 12-month period to recover losses incurred due to the imposition of mandatory rationing and extraordinary conservation expenses as authorized by Decision (D.)90-08-055, and to recover an accrued undercollection in its balancing account. After review by the Water Utilities Branch as more fully described below, SJW agreed to accept a reduced increase of \$2,649,800. This revenue consists of (1) \$4,833,800 in revenue lost due to rationing less related changes in water production costs, (2) a \$3,542,700 credit of rationing penalties collected from customers, (3) \$260,000 in extraordinary conservation expenses, and (4) an undercollection of \$1,098,700 in the balancing account for purchased water, purchased power and pump taxes. SJW serves about 202,470 metered customers in portions of Cupertino, San Jose, Santa Clara, Campbell, Los Gatos, Monte Sereno and Saratoga and in contiguous territory in the county of Santa Clara.

The Santa Clara Valley Water District (SCVWD) is the agency which manages water in the Santa Clara Valley. The SCVWD receives, treats and distributes water from state and federal sources, manages the recharge of groundwater aquifers, and wholesales treated water to water purveyors within its jurisdiction. Because of continuing drought conditions and a reduction in allotments by state and federal water purveyors, on February 21, 1989, the Board of Directors of the SCVWD declared Santa Clara County to be in a state of drought and ordered an immediate 45% cutback in water usage within the County. After receiving a larger allocation from the U.S. Bureau of Reclamation, the SCVWD on March 20, 1989, modified its mandate from a 45% reduction to a 25% reduction in water use.

On March 3, 1989, SJW filed a Petition for Emergency Rate Relief in Application 88-09-029, its general rate case, anticipating the imposition of rationing. On April 12, 1989, the Commission issued Resolution W-3440 authorizing SJW to modify its tariffs to incorporate a mandatory rationing plan. The Commission issued D.89-04-041, also effective April 12, 1989, on the Petition for

Emergency Rate Relief, authorizing SJW to establish a memorandum account to record the revenue effects of lost sales due to rationing, less the associated water production costs. The issues raised in SJW's Petition were subsequently consolidated with similar requests by other water utilities and the Commission's Order Instituting Investigation (I.)89-03-005 into measures to mitigate the effects of the drought. Following SCVWD's suspension of its call for rationing, the Commission issued Resolution W-3473 terminating mandatory rationing effective November 22, 1989.

On March 6, 1990, the SCVWD renewed its call for rationing and the Commission, by Resolution W-3485, again authorized SJW to implement rationing effective April 1, 1990. The Resolution also authorized the resumption of entries into SJW's rationing memorandum account.

On August 8, 1990, the Commission issued an interim opinion, D.90-08-055, which established the method used to calculate the revenue loss due to rationing and authorized SJW to file to recover that revenue over a 12-month period. For SJW, the amount to be recovered is limited to that accumulated during the period from the authorization of its mandatory rationing memorandum account, April 12, 1989, until the termination of its first rationing plan on November 21, 1989, and during the second period of rationing beginning April 1, 1990 and continuing through August 8, 1990, the effective date of D.90-08-055. Because SJW has not yet completed the necessary accounting work necessary to determine amounts due during the latter period, it is limiting its request in AL 228 to the former and intends to submit a separate advice letter later for the remainder.

D.90-08-055 authorized utilities' memorandum accounts to remain open to track revenue losses due to reduced sales and related changes in water production costs after August 8, 1990, but deferred consideration of rate increases for those amounts pending filing and Commission approval of comprehensive water management plans. The decision also authorized utilities to recover extraordinary conservation expenses incurred as a result of mandatory rationing. Any over- or undercollection, at the time the surcharge is terminated is to be transferred to the utility's regular expense balancing account.

Additionally, SJW is requesting amortization of its balancing account for purchased water, purchased power and pump taxes. In order to minimize the number of rate changes that customers face, the Branch recommends that the balancing account undercollection be amortized along with SJW's revenue loss.

Originally, SJW requested extraordinary conservation expenses of \$319,895. The Branch reviewed the charges and determined that legal expenses of \$10,400 should more properly be recorded in SJW's regulatory expense account and that \$49,500 of administrative overtime which was paid to salaried employees (who are not eligible for overtime) should not be included. The

utility agreed to excluding these items at this time, but may renew its request for them in Phase II of I.89-03-005.

The extraordinary conservation expenses include other minor items which could be disallowed, but such action would have minimal effect on rates. The major conservation expense was for payroll and labor. It would require a full audit to determine if all of the payroll expense was incremental and qualifies as extraordinary; however, SJW did implement an extensive conservation program which included, among other items, individual mailings to each customer of informational brochures and appeal forms, drought watchers with assistance for customers, enforcement of the mandatory rationing rules and extended customer service hours. The mailing of appeal forms to all customers generated over 47,000 appeals which had to be processed and required additional personnel.

SJW has given public notice of this request by publishing in the local newspaper on August 26, 1990. One protest was received, from a customer maintaining that SJW had not reduced its dividends and stockholders should have to bear any revenue losses due to rationing. In D.90-08-055, the Commission thoroughly examined the issue of whether SJW should be authorized to recover its rationing-induced losses for the period in question, leaving open only the specific amount and rates to be addressed in this advice letter filing. The single protest received did not take issue with that aspect of SJW's filing.

As required by D.90-08-055, SJW's AL 228 implements the increase in the form of a surcharge of \$0.044 per Ccf on all quantity rates (one Ccf is equal to one hundred cubic feet.)

The table below shows typical bills for residential customers at various usage levels at present and proposed rates:

General Metered Service (5/8 x 3/4-inch meters)

| <u>Monthly Usage</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Percent Increase</u> |
|----------------------|----------------------|-----------------------|-------------------------|
| 300 cu.ft. | \$ 7.53 | \$ 7.67 | 1.8% |
| 1,000 | 14.96 | 15.40 | 2.9% |
| 2,000 | 25.57 | 26.45 | 3.4% |
| 2,500 (avg.) | 25.57 | 31.98 | 3.6% |
| 3,000 | 36.18 | 37.50 | 3.6% |
| 4,000 | 46.79 | 48.55 | 3.8% |
| 5,000 | 57.40 | 59.60 | 3.8% |

The Branch has examined SJW's filing and workpapers and agrees that they are correct and consistent with the requirements of D.90-08-055.

THE COMMISSION FINDS, after investigation by the Branch, that the rate increase hereby authorized is justified and the resulting rates are just and reasonable.

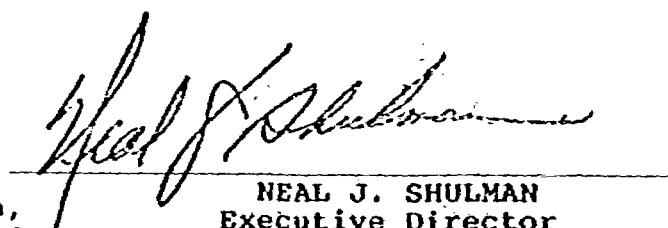
IT IS ORDERED that:

1. San Jose Water Company is authorized to make effective revised Schedules Nos. 1 and 6 attached to Advice Letter 228 and to cancel the presently effective rate schedules for water service.
2. At the end of the twelve-month period, San Jose Water Company shall transfer any remaining over- or undercollection of the \$1,551,100 authorized herein for water rationing sales losses (less penalties collected) and conservation expenses to its regular expense balancing account.

This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 24, 1990. The following Commissioners approved it:

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



NEAL J. SHULMAN
Executive Director

Commissioner John B. Ohanian, being necessarily absent, did not participate.