

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3664
August 11, 1992

RESOLUTION

(Res. W-3664) DEL ESTE WATER COMPANY (DEWC). ORDER
AUTHORIZING (1) TREATMENT AND DELIVERY AGREEMENT, AND
(2) THE ESTABLISHMENT OF A MEMORANDUM ACCOUNT TO
RECORD EXPENSES ASSOCIATED WITH THE REPLACEMENT AND
DISPOSAL OF SPENT CARBON.

BACKGROUND

By Advice Letter (AL) No. 127, filed April 24, 1992, DEWC requests authority to execute a Treatment and Delivery Agreement (TDA) with Modesto Irrigation District (District) and the City of Modesto (City). Subsequently, by letter dated June 23, 1992, DEWC requested authority to establish a memorandum account to record expenses incurred for the removal and disposal of spent carbon. DEWC serves approximately 18,000 customers in the cities of Modesto, Waterford and Turlock and unincorporated areas of Stanislaus County including Empire, Salida, Grayson and Hickman.

DISCUSSION

The Commission, by Decision 91-12-053, authorized DEWC to execute a Memorandum of Understanding among DEWC, the Modesto Irrigation District, and City of Modesto for the purpose of constructing a major water project which will enable the District to deliver 30 million gallons of treated surface water per day, and up to 60 million gallons per day ultimately to the City and DEWC. Ordering Paragraph 2 of this decision states:

"Del Este may obtain authority from the Commission to execute the Treatment and Delivery Agreement (TDA) by filing an advice letter with the Commission at such time as Del Este, the City of Modesto, and the Modesto Irrigation District finalize the term of that agreement. Branch will evaluate the conditions of the TDA and provide its recommendation to the Commission in the form of a resolution."

DEWC with its AL 127 submitted a copy of TDA signed by the District and the City of Modesto officials. The Water Utilities Branch's (Branch) review of the proposed TDA indicates that it basically covers all the provisions of the Memorandum of Understanding approved by the Commission and other minor items included to clarify the working arrangements of TDA are reasonable. Therefore, the Branch recommends that DEWC be authorized to execute the TDA in the form submitted with AL 127.

On December 19, 1990, DEWC was authorized by Decision 90-12-053 to increase its rates to offset the costs of wellhead treatment for reduction of Dibromochloropropane (DBCP) in eight of its wells. DBCP is a soil fumigant that was used widely as a pesticide for control of plant worms until it was banned in 1979. It is known to have caused sterility in male workers involved in its manufacture. DBCP treatment process consists of a carbon absorption process and requires frequent replacement of carbon.

Rates authorized by D.90-12-053 were designed to enable the company to recover the prepaid cost of the carbon over a 36-month period; however, on June 1, 1992, only 17 months into the amortization period, test results indicated that DEWC may have to replace carbon at some of its well sites which provide water service to a number of large food processors that begin seasonal processing in early July. Without these wells in service, it will be virtually impossible for DEWC's water production to keep up with the demand of the food processors.

Costs for the new carbon and disposal of the original spent carbon are estimated to be approximately \$45,000 per well site. Additional well sites are expected to require replacement and disposal of spent carbon in the near future.

This resolution would authorize DEWC to record in a memorandum account the expenses associated with the replacement and disposal of the spent carbon (including engineering, legal and other related costs) at C St. Empire, Mariposa East and Valley Lift East and for the remaining wells which may require early replacement of the carbon incurred after the effective date of this resolution. To allow DEWC to collect expenses that it incurred prior to the effective date of this resolution would constitute retroactive ratemaking. Costs, those incurred after the effective date of this resolution, could then be incorporated into DEWC's next general rate case which is scheduled for January, 1993 under the Commission's rate case plan.

The recording of these expenses in a memorandum account does not constitute a prejudgment of the appropriateness of recovery of any expenses included in the memorandum account. The purpose of authorizing this memorandum account is to insure that DEWC is not precluded from recovering extraordinary expenses incurred for the carbon replacement and disposal.

Because rates are unaffected by the creation of a memorandum account and parties will have an opportunity to review the recorded items in the next general rate case, it is appropriate to authorize the establishment of a memorandum account to record expenses associated with the carbon replacement and disposal.

FINDINGS

1. Del Este Water Company's execution of TDA would be reasonable and prudent, and in the best interest of its customers.
2. Recent test results have shown that DEWC may have to replace carbon utilized at DBCP treatment facilities at some of the well sites prior to the thirty-six month interval established in D.90-12-053.

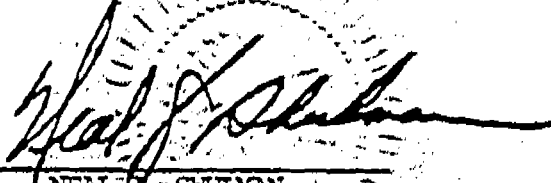
Resolution W-3664
DEWC/AL 127/RUT/JSS:JLJ

3. The wells requiring carbon replacement provide service to a number of large food processors.
4. DEWC has requested the establishment of a memorandum account to record expenses incurred for the carbon replacement and disposal.
5. The estimated costs for new carbon and disposal of the original spent carbon are approximately \$45,000 per well site.

IT IS ORDERED that:

1. Del Este Water Company is authorized to execute the Treatment and Delivery Agreement in the form submitted with Advice Letter No. 127, and to perform its obligations in accordance with terms and conditions thereof.
2. Del Este Water Company is authorized to establish a memorandum account to record the expenses related to the replacement and disposal of spent carbon. The expenses to be included in this account are only those that are incurred after the effective date of this resolution.
3. Del Este Water Company shall notify the Water Utilities Branch by letter when it establishes such a memorandum account.
4. The expenses shall be reviewed by the staff in DEWC's next general rate case and to the extent found reasonable by the Commission, may be allowed to be recovered in rates.
5. No expenses incurred prior to the effective date of this resolution shall be recorded in the memorandum account.
6. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on August 11, 1992. The following Commissioners approved it:


NEAL S. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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