

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3674  
August 11, 1992

## RESOLUTION

(RES. W-3674), CALIFORNIA WATER SERVICE COMPANY (CWS),  
STOCKTON DISTRICT. ORDER DENYING REQUEST FOR AN OFFSET  
RATE INCREASE PRODUCING \$1,166,300 OR 9.9% ADDITIONAL  
ANNUAL REVENUE.

BY ADVICE LETTER NO. 1235, FILED MARCH 18, 1992

BACKGROUND

After a bond issue of \$19,800,000 was approved in 1974, the City of Stockton, the County of San Joaquin and CWS entered into a contract with the Stockton East Water District (SEWD) to build a water treatment plant at CWS's former River Ranch site, east of Stockton, and also build a 13-mile 54-inch diameter reinforced concrete pipeline from the Calaveras River. This project was to provide a source of surface water to alleviate salt water intrusion into the water table under the Stockton Area. This original contract took effect on February 11, 1975. Decision (D.) 85138, November 18, 1975 authorized CWS to increase rates by 46.2% or \$1,846,200 per year and D.89528, October 17, 1978, authorized CWS to increase rates by 19.2% or \$1,218,800 per year to participate in this project.

In September, 1987, CWS signed a new contract called the Second Amended Contract (SAC). Under SAC, CWS's share of water fell from 92.5% to 63.5%. In return for this decrease in the amount of water, CWS's cost to participate in the project decreased. The SAC also used the groundwater depletion charge, or pump tax, to equalize the cost of treated water and pumped water to the water users.

In 1988, CWS filed A.88-12-016 "for an order authorizing it to establish a balancing account to include all recorded water production expenses in the Stockton District." D.89-04-014 in A.88-12-016 authorized CWS to record groundwater extraction charges in the purchased water balancing account, and CWS was ordered to file an advice letter for a rate decrease to reflect the lower cost of purchased water under SAC and to file a General Rate Increase (GRI) application. CWS filed Advice Letter 1103 to reduce rates from the \$3,362,100 in the original contract to \$1,785,500 in the SAC and raise groundwater extraction charges by \$22,300. After tax effects, the net decrease was \$1,331,100.

By Advice Letter 1235, filed March 18, 1992, CWS requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates to offset: (1) a \$988,500 decrease in purchased water costs, (2) a \$1,600,900 increase in groundwater extraction charges, (3) a \$236,300 increase in purchased power expense, (4) a \$17,600 increase in postage expenses, (5) a \$23,700 decrease in district ad valorem taxes, (6) a \$100 increase in general office ad valorem taxes, and

(7) a corresponding \$6,900 increase in uncollectibles and franchise requirements. The total of these offsets would increase rates by \$849,600 or 7.2%. To minimize the rate impact, CWS requests an increase of \$762,900 or 6.5% at this time. Additionally, it requests an increase of \$403,400 or 3.4% for two years to recover \$806,800 of undercollections in its balancing account. The total increase being requested is \$1,166,300 or 9.9 %.

CWS serves about 38,933 metered customers in San Joaquin County. The present rates became effective on January 1, 1992, pursuant to Decision No. 90-03-007 and Advice Letter 1229.

#### DISCUSSION

The Commission routinely authorizes a water utility to increase rates between GRCs to offset, dollar-for-dollar, increases in expenses over which the utility has no control. The offset calculation is based on quantities and unit costs adopted in the GRC last decision.

In this case, however, purchased water costs and groundwater extraction charges are conditions of the SAC with the SEWD. The SAC has not been approved by the Commission; its reasonableness is being reviewed in Phase II-B of A.89-06-037, a GRC proceeding.

The purchased water expense adopted in the current GRC (D.90-03-007 in A.89-06-037) is \$1,785,500. No quantity or unit cost was indicated in either D.89-04-014 or D.90-03-007.

The groundwater extraction charges adopted in the current GRC are \$76,000. They are based on a unit cost of \$3.60 per acre foot. This unit cost is not specified in the decision; however, it can be calculated from other data in the decision. The unit cost of \$3.60 was unchanged for many years while the original contract was in effect, although it was not a condition of the original contract.

It may be argued that, by entering into the SAC without seeking Commission authorization, CWS in effect assumed control of those expenses which are conditions of SAC. Thus, the requested \$985,500 decrease in purchased water costs and the \$1,600,900 increase in groundwater extraction charges in this Advice Letter are not the type of expenses for which offset rate increases are normally allowed between GRCs.

It is true that revenue reductions resulting from the SAC have previously been included in rates, but, even so, staff believes that this request for recovery should be rejected. The previous offsets were all revenue reductions that were passed through easily without extensive review since they were ordered by the Commission. These past reductions may be modified as a result of the reasonableness review.

Staff believes that current entries to the balancing account for purchased water expense should continue at the flat rate adopted by D.90-03-007. It further believes that current entries for groundwater extraction charges should continue at the historic rate of \$3.60 per acre foot which prevailed until SAC and which is implicit in rate case decisions including D.90-03-007. Any change to these amounts and any recovery of "undercollections" based on these changes should be specifically authorized by another decision. A. 89-06-037 is available for this purpose.

The staff recommends that Advice Letter 1235 be rejected.

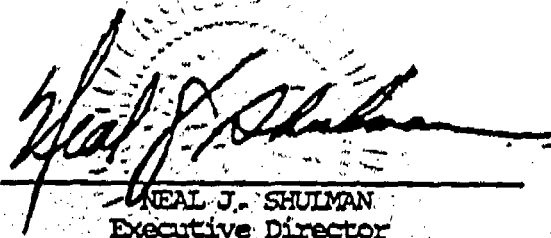
FINDINGS AND CONCLUSIONS

1. Information provided in support of this Advice Letter is not adequate under P.U. Code 451 to justify the requested increase.
2. Purchased water expenses and groundwater extraction charges are conditions of the SAC. CWS entered into SAC without Commission approval, and the Commission has not decided on the reasonableness of SAC.
3. CWS agreed that the reasonableness review of the SAC be continued to Phase II.
4. Until the Commission makes a finding on the reasonableness of the SAC, purchased water expenses and groundwater extraction charges are expenses over which CWS has control by virtue of its contractual agreement.
5. These expenses should not have associated balancing accounts, because balancing accounts are to record expenses over which the utility has no control.
6. In the interim, expense increases (or decreases) pursuant to the SAC should be explicitly approved by the Commission.
7. This request for recovery should be remanded to A.89-06-037.

IT IS ORDERED THAT:

1. California Water Service Company Advice Letter 1235 is rejected.
2. Any consideration of interim recovery under the second amended contract is properly decided in A.89-06-037.

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 J. SHULMAN  
Executive Director

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

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