

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3911
March 22, 1995

R E S O L U T I O N

(RES. W-3911), HAVASU WATER COMPANY (HWC). ORDER
AUTHORIZING MONTHLY SURCHARGE TO GENERATE ADDITIONAL ANNUAL
REVENUE OF \$23,352, OR 34%, FOR A FIVE-YEAR PERIOD.

BY DRAFT ADVICE LETTER FILED JULY 14, 1994.

SUMMARY

This resolution grants the Havasu Water Company (HWC) authority to collect a monthly surcharge of \$1,946 for a sixty-month period from its customers to pay for a new water filtration plant to meet the California Department of Health Services' (DHS) Surface Water Filtration and Disinfection Treatment Regulations (SWTR)—as contained in Title 22, Ch. 17, CCR. The surcharge will generate a total of \$116,760 for HWC. The increase will not result in a rate of return greater than that last authorized for HWC.

BACKGROUND

HWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to establish a surcharge for a sixty-month period to generate approximately \$1,946 per month, or \$23,352 annually, to pay for a new water filtration plant. HWC serves 201 metered customers near Havasu Landing, approximately 28 miles south of Needles in San Bernardino County.

HWC's present rates became effective on September 25, 1990, pursuant to Resolution No. W-3520, which granted a purchased water offset of \$9,615, or 14.1%. The last general rate increase became effective on June 20, 1986, pursuant to Resolution W-3319, dated May 28, 1986, which authorized a general rate increase of \$21,780, or 81%, for 1986 and \$19,310, or 40%, for 1987 with a return on rate base of 11.0%.

DISCUSSION

By letter dated October 30, 1991, DHS informed HWC that its existing water treatment plant did not meet the standards set forth by SWTR. DHS required HWC to submit for its review a plan to either replace or modify its existing treatment plant. Compliance with SWTR was to be met by June 29, 1993. DHS subsequently extended the compliance date for HWC to March 1995.

HWC informed DHS by letter dated January 3, 1994, that it had decided to replace its existing water treatment plant with a new two-stage automatic filtration system by Environmental Products Division, hereafter referred to as "EPD". On February 24, 1994, DHS accepted HWC's proposed system, subject to EPD's "demonstrated compliance with the performance criteria" of the SWTR.

HWC arranged for an EPD technology plant to be brought on-site to demonstrate its ability to treat HWC's water source to SWIR requirements. Based on the study results, DHS approved HWC's use of the EPD filtration system in a letter dated June 6, 1994.

HWC proposes to lease the EPD plant from Banc One Leasing Corporation (Banc One). The lease allows HWC to hold ownership title to the plant, while Banc One holds a lien against the plant for its entire cost. The cost of the EPD plant is \$88,567. Banc One will lease the plant to HWC for \$1,946 per month for sixty months with an interest rate of 12%. Total payments will be \$116,760.

HWC proposes a monthly surcharge on the service charge as follows:

<u>Meter Size</u>	<u>Monthly Surcharge</u>
5/8 x 3/4-inch meter	\$ 9.31
3/4-inch meter	10.19
1-inch meter	13.86
1-1/2-inch meter	18.18
2-inch meter	25.47
4-inch meter	54.76

The proposed surcharge will generate \$1,946 per month to pay the Banc One lease payment.

The Water Utilities Branch (Branch) has reviewed HWC's request and finds it reasonable. A new treatment plant is considered a "fixed cost" and, therefore, a surcharge on the service charge only for this Class D utility is appropriate.

As small water utilities typically have difficulty arranging financing for large plant additions and improvements, the lease arrangement provides an acceptable solution. The proposal is also in accordance with Branch policy that allows for DHS mandated projects to be paid for through a surcharge. As the EPD plant will be paid for by a surcharge, its cost will not be included in rate base. Therefore, after the surcharge expires, there will be no further rate impact on HWC customers.

The maintenance costs for the new EPD plant are expected to be approximately the same as for the existing water treatment plant.

Branch recommends that HWC establish a reserve account to track surcharge revenue and lease costs. A reserve account will ensure that surcharge revenue will not be commingled with other revenues. Branch recommends that the reserve account be audited at HWC's next general rate proceeding and at the end of the lease period.

Service is adequate. There are no outstanding Commission compliance orders requiring system improvements.

NOTICE AND PROTESTS

HWC mailed a notice of the proposed increase to each customer with their monthly bills for the cycles ended December 1994 and January 1995. The Branch received two letters opposing the surcharge.

A public meeting was held on January 21, 1995, in HWC's service area. The Branch's representative explained Commission rate setting procedures. A DRS representative present explained the need for the plant and a representative from the filter company explained the operation of the EPD plant. The utility owner was also present to answer questions.

The meeting was attended by approximately 100 customers. Most had questions regarding the new treatment plant and the proposed surcharge.

FINDINGS

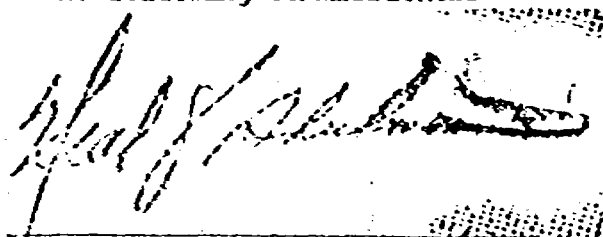
1. DRS has approved the EPD water treatment plant.
2. The establishment of a reserve account will ensure no comingling of surcharge funds with general revenues.
3. The Commission finds that the rate increase hereby authorized is justified, and the resulting surcharge is just and reasonable.

IT IS ORDERED that:

1. Authority is granted under the Public Utilities Code, Section 454, for Havasu Water Company to file an advice letter incorporating the rate schedule attached as Appendix A, and concurrently cancel the presently effective Schedule No. 1, General Metered Service. The filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
2. Havasu Water Company shall establish and maintain a reserve account in accordance with Public Utilities Code Section 792.5 to track surcharge revenues and lease costs of the filtration plant.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 22, 1995. The following Commissioners approved it:

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners



NEAL J. SHULMAN
Executive Director

APPENDIX A
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HAVASU WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Tract Nos. 6493, 6494, 6595, 5986, 8284, and vicinity and a 40-acre parcel about 3000 feet to the north located near Havasu Landing, approximately 28 miles south of Needles, San Bernardino County.

RATES

	<u>Per Meter Per Month</u>	
Quantity Rates:		
First 300 cu. ft., per 100 cu. ft.	\$	0.93
Over 300 cu. ft., per 100 cu. ft.		1.19
Service Charge:	<u>Surcharge</u>	(N)
For 5/8 x 3/4-inch meter	\$ 17.00	\$ 9.31
For 3/4-inch meter	18.60	10.19
For 1-inch meter	25.30	13.86
For 1-1/2-inch meter	33.20	18.18
For 2-inch meter	46.50	25.47
For 4-inch meter	100.00	54.76

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

APPENDIX A
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HAVASU WATER COMPANY

Schedule No. 1

GENERAL, METERED SERVICE
(continued)

SPECIAL CONDITIONS

1. Bales Mobil Home Park, having their own water rights to Colorado River water, shall receive a credit of \$0.32 per 100 cu. ft. pursuant to Decision 85-04-056.
2. Customers in Tract No. 8284 shall be billed for only the monthly service charge until all customers in the tract are individually metered by the utility.
3. The surcharge is in addition to the regular monthly service charge and it will be separately identified on each bill. It is specifically to pay for the lease payments for a new water filtration plant as required by the California Department of Health Services. This surcharge will last for a period of sixty months from the effective date of Advice Letter No. ____.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(N)

(N)