

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3941
September 7, 1995

R E S O L U T I O N

(RES. W-3941), MOUNT CHARLIE WATER WORKS, INC. (MCWW).
ORDER AUTHORIZING AN EMERGENCY RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$280,320 OR 228%.

BY LETTER DATED AUGUST 4, 1995.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$280,320 or 228%. The increase will generate sufficient revenues to pay operating expenses for a court appointed receiver and to allow badly needed repairs and upgrades to be made. It provides no return on rate base.

BACKGROUND

By letter dated August 4, 1995, John W. Richardson (Richardson), as a court appointed receiver for Mt. Charlie Water Works, Inc. (MCWW), has requested an emergency rate increase to allow it to recover the cost of operation of the water system and to make badly needed repairs. There will be no rate of return on MCWW's rate base.

MCWW's last rate increase became effective on November 14, 1991, pursuant to Commission Decision (D.) 91-11-019 which authorized a surcharge for association dues to the Mountain Mutual Water Company. The last general rate increase became effective June 25, 1991, pursuant to D.91-06-047 which produced an increase in revenues of \$64,820 or 90.9%.

DISCUSSION

On June 5, 1995, Richardson was appointed by the Santa Cruz County Superior Court as receiver for MCWW. This action was taken in conjunction with a lawsuit by the county against MCWW and its managers for failing to adhere to health and safety regulations. Richardson was charged with operating the utility in a manner that would expediently bring it into compliance with safe drinking water requirements. The Commission approved Richardson's receivership in Resolution (R.) W-3935, dated August 11, 1995.

MCWW has a long history of water quantity and quality problems, and has come under increasing scrutiny by public health officials as it has fallen further out of compliance with current health standards. The system currently draws water from two creeks flowing through the service territory, pumping water directly into distribution storage with no filtration or chlorination. The Surface Water Treatment Rule, promulgated by EPA and enforced by the County Department of Health Services, requires all surface water be chlorinated and filtered to remove viruses and microorganisms.

MCWW has had pure, treated water at its doorstep for approximately four years in the form of the Montevina Pipeline, a conduit for treated water from Lexington reservoir in the Santa Clara Valley. For approximately three years, MCWW has been in receipt of a commitment from the Department of Water Resources for a low interest loan for water supply improvements. However, the project to connect to the pipeline has never begun, in part due to lack of effort on the part of MCWW management.

Richardson, in managing the water utility, thus has two main responsibilities: to bring safe, treated water into the system as soon as possible, and to negotiate a permanent solution to water quality problems. To meet these goals, Richardson expects to make substantial improvements to facilities in the next year.

Richardson proposed an increase of up to \$377,367 or 296% in his letter of August 4. Through discussions with Branch staff and meetings with customers, the request was reduced to an increase of \$280,320 or 228%, including facilities charges of \$106,872 for upgrade of the system. No funding is considered in the request for construction of a permanent water tie-in. This tie-in would be built solely with money from the Safe Drinking Water Bond Act.

Branch has reviewed the request for an increase in its present form and believes the summary of earnings is reasonable under the circumstances. However, the Branch believes the rate increase should be made for a limited period of time, subject to memorandum account treatment, and subject to refund after a reasonableness review. Branch believes the special circumstance of a receiver in this instance requires special revenue balancing mechanisms so that the receiver neither derives a profit from system operations nor is unduly harmed by revenue shortfalls. In addition, through the diligent pursuit of system upgrades and repairs during the next year, MCWW should be expected to have an entirely different cost structure in the future. Limiting the time this rate is in effect will both provide consumer confidence and compel the utility to file for permanent rates in one year's time.

Richardson has obtained a \$50,000 loan from Saratoga National Bank to pay for initial repairs to the water system. MCWW is requesting to impose a surcharge of \$31.00 per customer per month to make principal and interest payments of \$56,000 in one year for the fully amortized loan at the prime rate plus one percent. Since this loan is only for one year, Commission approval is not necessary. However, since the surcharge is a precondition of the loan, MCWW has requested the Commission approve the method of payment. The Branch notes that there may be prospects for potential sale of MCWW water system to a public entity. In such cases normally public entities end up paying replacement cost of the water plant less accumulated depreciation. The amount paid by public entities is eventually collected from the ratepayers either through rates or special assessments. In order to protect the customers from paying twice for the same plant, the Branch recommends that the approval of this surcharge be on the condition that, in the event of a sale, the owners of MCWW receive no compensation for plant financed by the customers.

The Branch made an independent analysis of MCWW's summary of earnings. Appendix A shows MCWW's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1995. Because this emergency rate increase is necessary only to recover operating expenses, no provisions were made for a return on rate base.

MCWW's filed tariffs currently contain one schedule, Schedule No. 1, Metered Service. MCWW serves approximately 153 customers of which seven are inactive. At the Branch's recommended rates shown in Appendix B, the bill for a typical metered rate residential customer would increase from \$70.00 to \$230.00, or 229%, per month for one year.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on August 4, 1995. While no letters have been received by the Branch, Customers have had the opportunity to comment on the plans twice in the last month in workshop sessions held by Richardson. With the public notice, Richardson mailed a copy of several proposed budgets and asked that customers comment on them at a meeting August 15, 1995. During that meeting, customers expressed support for the plan of action proposed by Mr. Richardson, though many were wary of the high rates proposed. The overwhelming feeling was that customers had been asked to pay for system improvements in the past only to see that money wasted. Thus customers unanimously called for increased accountability from the Receiver. Mr. Richardson agreed to provide customers with timely and substantive progress reports and to meet with the citizen's steering committee.

A public meeting was held August 24, 1995 at Loma Prieta School, approximately three miles from the service area. Customers in attendance reiterated some of the same points made at prior meetings. The Branch representative indicated that Branch would most likely recommend interim rates for one year, subject to revision at that time.

FINDINGS AND CONCLUSIONS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. Because the receiver has little experience operating the system and is making changes to facilities and operations, MCWW should be authorized to establish memorandum accounts to record purchased power, purchased water, water treatment expenses, materials, contract work, management salaries, professional services, office services and office supplies. Richardson should be required to file a statement of balances in these memorandum accounts no later than September 1, 1996 and to file an advice letter at that time to either recover the balances or refund them to customers.
4. The Saratoga National Bank Loan is a short term loan designed to provide needed money for infrastructure repair at the beginning of the year. As a condition of loan approval, the Bank requested the loan be repaid through a one-year customer surcharge to ensure repayment. The surcharge of \$31.00 per customer per month to amortize this loan should be approved.

5. Since system improvements must be made during the period of receivership to meet state drinking water quality requirements, MCWW requested that a facilities charge be instituted in order to fund such improvements. A charge of \$59.00 per customer per month should be approved for that purpose.
6. Any customer whose account is inactive during the period of facilities fee surcharges should be required to pay accrued surcharges for the period of inactivity before service can be reactivated.
7. Since the utility's stockholders are not financing the proposed plant improvements, the stockholders should not be entitled to seek any compensation for the plant financed by the ratepayers should such plant be acquired by a public entity or sold to other private entity.
8. The rates authorized herein should be in effect for one year only, because the operating characteristics of the utility are likely to change during that year.
9. MCWW should be required to file a General Rate Case, either by draft Advice Letter or Application, before September 1, 1996.
10. Previous Commission orders requiring MCWW to produce documentation of an intertie engineering report with the Montevina Pipeline should be vacated at this time. The order requiring a report on water hauling should also be vacated. Circumstances surrounding those orders have changed significantly.
11. The Commission's prior order of a service connection moratorium in D. 88-09-071 should continue.
12. The rate increase authorized herein is justified, and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Mt. Charlie Water Works to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendix A and B respectively, and concurrently to cancel its presently effective rate Schedule No. 1, General Metered Service. Its filing shall comply with General Order 96-A. Due to the emergency nature of the rate increase request, the effective date of the revised schedules should be the date of filing.
2. The rate increase authorized herein is temporary and subject to refund pending a General Rate Case to be filed before September 1, 1996. In the absence of further Commission Order, Mt. Charlie is authorized to charge only the rates approved in D. 91-06-047 after September 1, 1996.
3. Mt. Charlie Water Works is authorized to establish memorandum accounts to record purchased power, purchased water, water treatment expenses, materials, contract work, management salaries, professional services, office services, and office supplies and to file an Advice Letter to seek recovery of those costs.

4. Mt. Charlie Water Works, Inc. is authorized to establish a surcharge of \$31.00 per customer per month for twelve months for the sole purpose of repaying a loan from Saratoga National Bank.
5. Mt. Charlie Water Works, Inc. shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue relating to the Saratoga National Bank Loan. The balancing account shall be reduced by payment of principal and interest to Saratoga National Bank. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by applicant. Any excess amount collected in the account as of September 1, 1996 should be refunded to customers as part of the next General Rate Case.
6. Mt. Charlie Water Works, Inc. is allowed to establish a Facilities Fee Surcharge to fund urgently needed improvements to the water system. The surcharge, in the amount of \$59.00 per customer per month, is to be in effect for twelve months only.
7. Any customer whose account is inactive during the period of facilities fee surcharges is required to pay accrued surcharges for the period of inactivity before service can be reactivated.
8. Plant financed through the Facilities Fee Surcharge shall be permanently excluded from rate base for ratemaking purposes.
9. Mt. Charlie Water Works, Inc. or its stockholders shall not seek any compensation for plant financed by the ratepayers should such plant be acquired by a public authority or sold to other entity.
10. Previous Commission orders requiring Mt. Charlie to report on an engineering study of Montevina Pipeline interconnection and on water hauling are vacated.
11. The Commission's previously ordered service connection moratorium continues in effect until future order of the Commission.
12. Mt. Charlie Water Works, Inc. is required to file a General Rate Case, either by draft Advice Letter or Application, before September 1, 1996.

Resolution W-3941
Mt. Charlie Water Works, Inc./ABJ/TFS:men

13. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on September 7, 1995. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Acting Executive Director

DANIEL W. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
Commissioners

APPENDIX A

Mt. Charlie Water Works, Inc.

SUMMARY OF EARNINGS
Test Year 1995

Item	<u>Utility Estimated</u>		<u>Staff Estimated</u>		Staff Adopted Rates
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
<u>Operating Revenue</u>					
Loan Surcharge Metered		56,000		56,000	56,000
	\$122,640	\$245,280	\$122,640	\$245,280	\$245,280
Total revenue	\$122,640	\$301,280	\$122,640	\$301,280	\$301,280 ¹
<u>Operating Expense</u>					
Purchased Power	\$33,500	26,000	26,000	26,000	26,000
Purchased Water	21,020	21,020	21,020	21,020	21,020
Other Vol. Rel	13,600	13,600	13,600	13,600	13,600
Employee Labor	68,177	68,177	68,177	68,177	68,177
Materials	10,750	10,750	10,750	10,750	10,750
Contract Work	4,150	4,150	4,150	4,150	4,150
Transportation	2,974	2,974	2,974	2,974	2,974
Office Salaries	8,000	8,000	8,000	8,000	8,000
Other Plant Maint	3,120	3,120	3,120	3,120	3,120
Management Salary	41,915	41,915	41,915	41,915	41,915
Office Services	7,000	7,000	7,000	7,000	7,000
Office Supplies	4,500	4,500	4,500	4,500	4,500
Professional Serv	68,800	68,800	68,800	68,800	68,800
Insurance	5,474	5,474	5,474	5,474	5,474
General Expense	6,000	6,000	6,000	6,000	6,000
Subtotal	298,980	298,980	298,980	298,980	298,980
Property Taxes	1,500	1,500	1,500	1,500	1,500
Income Tax	800	800	800	800	800
Total Deductions	301,280	301,280	301,280	301,280	301,280
Net Revenue	(178,640)	0	(178,640)	0	0
Rate Base ²	N/A	N/A	N/A	N/A	N/A
Rate of Return ²	N/A	N/A	N/A	N/A	N/A

1. This figure does not include facilities charges for system improvements of \$105,120 for the test year.

2. Not applicable. The emergency rate increase is only for coverage of operating expenses; no provisions at this time for a rate of return.

APPENDIX B
Page 1

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Santa Cruz Mountain territory, south of Summit Road, west of state Highway 17, Santa Cruz County.

RATES

	<u>Per Meter per Month Service Charge</u>	<u>Loan Repayment Surcharge</u>	<u>Facilities Surcharge</u>
	(PER METER PER MONTH)		
Combined Service and Minimum Charge	\$140.00 (I)	31.00 (N)	59.00 (N)

Quantity Rate:

For all water in excess of
500 cubic feet, per 100 cubic feet \$5.25

The combined Service and Minimum Charge is a readiness-to-serve charge which also entitles the customer to an allowance of up to 500 cu. ft. of water for the month. The charge is applicable to all metered service to which is added the quantity charge computed at the quantity rate for all water used in excess of the allowance.

SPECIAL CONDITIONS

1. Residents whose homes were destroyed or rendered uninhabitable by the October 17, 1989 earthquake and its aftermath will not be charged the regular monthly service charge until their homes are replaced or rendered habitable.
2. All bills are subject to the reimbursement fee set forth in schedule No. UF.
3. The monthly service and minimum charge is an interim emergency rate, in effect only for the months of September 1995 through August 1996. In the absence of further direction from the Commission, rates for September 1996 would be \$70.00 per month for service and minimum charges.

(D)

(N)

(N)

Schedule No.1
(Continued)

METERED SERVICE

Special Conditions (Continued)

4. The \$31.00 surcharge for loan repayment is in addition to the water bill. The surcharge must be identified on each bill. The surcharge is specifically for the repayment of the loan from Saratoga National Bank. The surcharge is in effect only for the months of September 1995 through August 1996. (N)
5. The \$59.00 surcharge for facilities is in addition to the water bill. The surcharge must be identified on each bill. The surcharge is specifically to allow the Receiver to upgrade facilities to ensure safe drinking water. Customers not currently receiving service from the utility must pay a facilities fee equal to the accumulated monthly facilities fees before service can be activated. The Facilities surcharge is in effect only for the months of September 1995 through August 1996. (N)
6. All rates are subject to refund pending a final Commission decision on Mt. Charlie's rate increase request. (N)