

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION W-3962
January 10, 1996

R E S O L U T I O N

(RES. W-3962), TAHOE PARK WATER COMPANY, (TPWC). ORDER
AUTHORIZING A RATE BASE OFFSET RATE INCREASE PRODUCING
\$9,789 OR 7.63% ADDITIONAL ANNUAL REVENUE.

BY ADVICE LETTER 43, FILED OCTOBER 17, 1995.

SUMMARY

This Resolution authorizes TPWC to increase rates by \$9,789 or 7.63% to offset a rate base plant addition for its Tahoe Park Service Area in 1995. The increase will not result in a rate of return greater than last authorized for TPWC.

BACKGROUND

TPWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code for a rate base plant addition and corresponding rate adjustment for the legal costs required to clear title to its filter plant site and to defend itself against a lawsuit by the Tahoe Park Homeowners Association. That lawsuit sought to prohibit the use of the utility's easement to build a treatment plant. Ordering Paragraph No. 3 of Commission Resolution W-3905, dated January 5, 1995, authorized TPWC to record its legal costs associated with the homeowner's lawsuit in a memorandum account and to file an advice letter requesting recovery of those costs. TPWC serves approximately 525 customers in an unincorporated area outside Tahoe City, Placer County.

Tahoe Park proposed to recover these costs as a rate base offset to reduce the immediate rate impact and also because these costs were incurred as a part of the utility's filter plant construction project. TPWC is required to filter all surface water to comply with new Department of Health Services rules. In addition, because the water supply project benefits only customers in the Tahoe Park service area, not those in the Skyland-Nielson service area, TPWC proposed to raise rates only for the Tahoe Park Service area.

The present rates became effective January 5, 1995, pursuant to Resolution W-3905, which authorized a general rate increase of \$11,950 or 10.28% for 1995. The rate of return on rate base of 11.55% was found to be reasonable for the test year.

DISCUSSION

The rate base offset increase requested herein is for the purpose of recovering in rates, on a dollar-for-dollar basis, changes in expenses that have occurred since the present rates became effective. This rate increase will not result in a return greater than that previously authorized.

Resolution W-3905 authorized TWC to record legal costs resulting from the Tahoe Park Homeowners' Association lawsuit, and to file an advice letter requesting recovery of those costs. TWC accrued \$54,511 in legal fees, court costs, and other charges directly related to the litigation. Branch has reviewed TWC's calculations and concurs with its proposed rates. The litigation was decided in TWC's favor and allows the utility to build its treatment plant in 1996. For this reason, Branch believes it is reasonable to assign this cost to rate base and to allow TWC to recover depreciation and a reasonable rate of return on the investment. However, the Water Utilities Branch (Branch) believes it is reasonable to examine at the time of the next General Rate Case whether the filtration project was completed using the easement affirmed in the lawsuit or whether compliance with the DIS order was established in another manner. In the case a project will not be built on that site, or if other circumstances warrant, the Commission may consider other rate-making treatment for the legal costs, including amortizing the remaining balance more quickly through a surcharge.

Service is satisfactory. There are no Commission orders requiring system improvement, nor are there significant service problems requiring corrective action.

The increase will result in an \$18.11 per year or 8.99% increase for flat rate residential customers in the Tahoe Park service area. The average metered bill will increase 8.99% as well.

RATE DESIGN

In accordance with the adopted rate design in Resolution W-3905, the increase in flat rate service in the Tahoe Park service area will be reflected in an increased zone adder. This is so that the base rate will continue to equal the base rate in the Skyland-Nielson service area. Branch designed the base rate and zone adder system in response to similar fixed costs and divergent operating costs in the two service areas. For metered rates, both the service charge and the quantity rate have been raised by 8.99%.

PROTESTS

TWC published notice in a local newspaper on December 21, 1995. Because the rate increase does not exceed 10%, no additional notice is necessary. No letters have been received protesting the increase.

FINDINGS

1. The rate increase hereby authorized is justified, and the resulting rate is just and reasonable.
2. At the time of the next General Rate Case, Water Utilities Branch should determine whether the legal costs were precedent to construction of treatment facilities on the disputed site. If they are not, or if other factors warrant reconsideration, Branch should recommend other treatment for this expense.

IT IS ORDERED that:

1. Tahoe Park Water Company is authorized, five days after the effective date herein, to make effective revised Schedules No. 1A, Metered Service; No. 2RA-TP, Annual Residential Flat Rate Service; and No. 4, Private Fire Protection Service, attached to Advice Letter 43 and to cancel the corresponding, presently effective rate schedules for water service.
2. In the next General Rate Case, the Water Utilities Branch should further investigate to make an appropriate recommendation whether Tahoe Park Water Company should continue to treat the legal fees offset herein as a rate base item. Branch should recommend either that it continue to be treated as conventional plant or such other treatment as is appropriate.
3. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 10, 1996. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
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Commissioners