

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION W-3990**
July 17, 1996

RESOLUTION

(RES. W-3990), GREAT OAKS WATER COMPANY (GOWC). ORDER AUTHORIZING AN OFFSET RATE INCREASE OF \$161,800 OR 2.50%, A SIMULTANEOUS TWENTY-FOUR (24) MONTH SURCREDIT OF \$0.043 PER ONE HUNDRED CUBIC FEET (Ccf) OF WATER CONSUMPTION PRODUCING AN ANNUAL DECREASE OF \$227,222 OR 3.78%, FOR TWO (2) YEARS, AND A ONE-TIME REFUND OF \$150,000.

BY ADVICE LETTER 144, FILED ON APRIL 22, 1996.

SUMMARY

This Resolution authorizes GOWC to increase annual revenues by \$161,800 or 2.50% and to refund to ratepayers a total of \$604,443, to be disbursed as follows: one lump sum credit of \$150,000 paid to customers within four months of the effective date of this resolution and the balance of \$454,443 to be amortized over the next twenty-four months (an annual revenue decrease of approximately \$227,222 or 3.78%). GOWC bills will include an explanation alerting customers that their bill includes an amortized refund of \$0.043 per ccf. These changes will not result in a rate of return greater than last authorized for GOWC.

The revenue increase is authorized to recover costs of capital investments in water utility plant and to adjust for a decrease in the pump tax rate. The refund (including both the one-time credit and the amortized balance) is to restore a net overcollection in the balancing accounts for pump tax, drought memorandum account, and purchased power account.

This resolution also directs the Water Branch to hold workshops with utilities to discuss offset procedures which will more readily provide for prompt refunds of balancing account overcollections.

BACKGROUND

GOWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates in order to offset an investment in new plant facilities in compliance with D.93-09-077 which authorized and prescribed the procedures under which an offset rate increase could be requested. GOWC presently serves approximately 18,500 customers located in the southern portion of the City of San Jose.

The present rates became effective January 30, 1996, pursuant to Advice Letter 143, requesting a one-time charge to customers to recover annual fees paid to the California Department of Health Services.

DISCUSSION

In its only general rate case since the inception of the company in 1959, GWC entered into a settlement agreement with the CPUC's Division of Ratepayers Advocates resolving the issue of rate-making treatment for monies allotted to GWC in claims for contamination of some of its wells. The settlement agreement was approved by the Commission in general rate case, D.93-09-077, dated September 17, 1993. This decision orders GWC to establish a special Contributions Fund (CF) and to administer the fund pursuant to the accounting procedures set forth in the settlement agreement. To the extent that GWC makes investments in utility plant that result in draws upon the CF, GWC will be eligible to file advice letter requests, subject to reasonableness review, for rate base offset increases with respect to matching shareholder investment not covered by the CF.

To comply with the Commission order for a reasonableness review of this request, an investigation was conducted by the Water Utilities Branch (Branch) to determine the degree of compliance with the orders of the Commission concerning this request, and to determine if the new plant is used and useful for the operation of the utility. Field investigations found that the largest components of the new plant consist of an additional 4.6 million gallons in storage and a new computerized pump control system. Branch found these improvements to be prudent and necessary for the operation of GWC. Branch found that GWC complied with the orders of the general rate decision concerning the accounting for rate-making treatment of these improvements. Branch reviewed the balancing accounts and found them to be in order. The Branch recommends that GWC be authorized to implement its proposed rates to recover a return on new investment.

The Branch has reviewed GWC's balancing account and agrees that it currently shows an overcollection of \$604,443. The Branch recommends that the overcollections be refunded to customers.

The Commission prefers that utilities disburse monies due to customers as quickly as possible. Immediate refunds are preferred; amortized refunds should be used rarely. Lump sum refunds allow customers immediate use of their money and do not distort the actual cost of utility service. In contrast, amortization of refunds creates the artificial impression that services are less costly than they actually are.

Notwithstanding Commission preference for immediate and total refunds of customers' monies, in the present case Branch recommends a refund amortization plan. GWC's balancing account overcollection represents about 9.1% of its annual revenues. To require GWC to refund the entire amount at this time could adversely impact the company's operations. Accordingly, the Branch recommends that GWC be required to refund to customers a lump sum of \$150,000 within 120 days of this order. This refund should be based on 1995 billing period usage. The Branch further recommends that GWC be permitted to amortize the remaining refund of 454,443 over the next 24 months.

The Commission should be concerned when, as in the present case, balancing account overcollections are allowed to accumulate to a point that prompt, lump sum refunds to customers are not practicable. Water Branch recommends that the Commission order a workshop with the utilities to consider the issue of prompt refund of balancing account overcollections and to develop practical recommendations to better achieve that goal.

A Summary of Earnings and a rate schedule are attached to this resolution as Appendix A and Appendix B, respectively.

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

NOTICE AND PROTESTS

GOWC published a notice of this proposed change in its tariffs in a local newspaper on April 26, 1996. There were no protest letters.

FINDINGS

The Commission finds, after investigation by the Branch, that the rate changes proposed by Great Oaks Water Company are just and reasonable.

IT IS ORDERED that:

1. Great Oaks Water Company is authorized to adopt the Summary of Earnings attached to this resolution as Appendix A, and five days after the effective date herein, to make effective Schedule No. 1, General Metered Service, as attached to this advice letter as Appendix B.
2. Great Oaks Water Company shall include a separate line notice on each of its billings to show customers the actual amount of the surcredit due to the balancing account amortization.
3. Branch is directed to hold a workshop with affected utilities to discuss possible changes to the offset procedure to provide for a more responsive refund of overcollections.

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4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 17, 1996. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President
DANIEL Wm. FESSLER
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEPPER
Commissioners

APPENDIX A

Great Oaks Water Company

ADJUSTED SUMMARY OF EARNINGS

Test Year 1993

Item	: Adopted : By GRC : D.94-03-077 :	: Changes	: Adopted : By This : Resolution
<u>Operating Revenues</u>			
Total Operating Revenues	\$6,473,600	\$ 161,800	\$6,635,400
<u>Operating Expenses</u>			
Pump Tax	3,418,700	(287,000)	3,131,700
Purchased Power	617,200	0	617,200
Payroll	605,200	0	605,200
Other Operating Expenses	601,300	256	601,556
Depreciation	381,000	0	381,000
Other Taxes	133,700	0	133,700
Expenses Before Income Tax	5,757,100	(286,744)	5,470,356
Net Before Income Tax	716,500	448,544	1,165,044
State Franchise Tax	37,200	41,714	78,914
Federal Income Tax	<u>233,000</u>	<u>152,505</u>	<u>385,505</u>
Total Income Tax	270,200	194,219	464,419
Net Operating Revenue	446,300	254,325	700,625
Rate Base	4,227,400	2,407,327	6,634,727
Rate of Return	10.56%		10.56%

(END OF APPENDIX A)

APPENDIX B

Great Oaks Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area in Southeast San Jose, East of Snell Road, and South of Hellyer Park, Santa Clara County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
For all water delivered, per 100 cu.ft.....	\$ 1.071	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 4.73	(I)
For 3/4-inch meter	6.83	
For 1-inch meter	9.24	
For 1-1/2-inch meter	14.24	
For 2-inch meter	18.81	
For 3-inch meter	31.98	
For 4-inch meter	44.08	
For 6-inch meter	72.03	
For 8-inch meter	80.63	
For 10-inch meter	134.38	(I)

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

SPECIAL CONDITIONS

1. All bills are subject to a 2% Franchise Fee imposed by the City of San Jose on customers within the city limits of the City of San Jose.
2. Due to an overcollection in the balancing account, the utility will credit customers' bills with a one-time credit that refunds \$150,000 within 120 days of the effective date of this tariff and a surcredit of \$0.043 per Ccf is to be added to the quantity rates for 24 months from the effective date of this advice letter. (N)
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(N)
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (L)
(L)