

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4012
December 20, 1996

RESOLUTION

(RES. W-4012), MT. CHARLIE WATER WORKS, INC. (MCWW).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$221,520 OR 186%.

BY DRAFT ADVICE LETTER DATED OCTOBER 30, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$221,520 or 186%. 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 draft advice letter dated October 30, 1996, John W. Richardson (Richardson), as a court appointed receiver for Mt. Charlie Water Works, Inc. (MCWW), has requested a general rate increase of \$262,671 or 220% to allow recovery of the cost of operation of the water system and to continue badly needed repairs. He has also requested approval of a short-term loan to pay for construction expenses. There will be no rate of return on MCWW's rate base.

On September 7, 1995, the Commission approved Resolution W-3941 which authorized an emergency rate increase of \$280,320 or 228% for a period of one year to cover projected operating expenses and capital improvements. The rates authorized in that resolution have expired, and the receiver is currently charging rates authorized under Decision (D.) 91-06-047, effective June 25, 1991.

During the last fifteen months, Richardson has upgraded existing system facilities, built an emergency connection to a new water source, and obtained a commitment from the California Department of Water Resources (DWR) for a Safe Drinking Water Bond Act loan.

In addition, the customers voted in 1996 to form Summit West County Services Area (SWCSA) to operate a water system in Mt. Charlie's service area. SWCSA is currently beginning a process to take the system from its owners under eminent domain. A court-appointed appraiser has been hired to determine a fair value for the system and it is likely SWCSA will petition the Commission to revoke Mt. Charlie's CPCN in late 1997.

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 (Res.) W-3935, dated August 11, 1995.

Through Richardson's efforts, MCWW has won a commitment from DWR to fund \$770,000 of construction cost to connect MCWW facilities with the Montevina Pipeline, a conduit for treated water from Lexington reservoir in the Santa Clara Valley. By a separate resolution on the Commission's agenda today, we approve MCWW's request to execute the loan with DWR and allow a surcharge of \$24.79 per month for repayment of the loan principal and interest.

The Commission approved an emergency rate increase in 1995 with protection for customers and Richardson by making the rates limited in time and subject to refund and memorandum accounting. According to records presented with the draft Advice Letter, Richardson has accrued approximately \$58,000 in balances in the memorandum accounts. The Accounting and Finance Branch (AFB) of the Water Division is currently reviewing those memorandum accounts for reasonableness. After the AFB issues its report, MCWW should file an advice letter for recovery of those costs.

MCWW proposed an increase of up to \$409,831 or 344% in its public notice to customers. Alternately, the utility requested \$262,671 or 220% if the SDWBA loan was approved. Since DWR has sent a commitment letter for the SDWBA loan, Small Water Branch (Branch) considered the lower rate request when making its evaluation. Both requests include a one-year amortization of \$58,000 to pay off memorandum account balances.

In addition, a customer representative group reviewed the filing and proposed a substantially similar budget with an increase of \$219,816 or 184%, though its expenses were allocated to different projects. The proposal by the customers did not include amortization of memorandum account balances.

Branch reviewed the request for an increase and believes the proposed summary of earnings is reasonable under the circumstances. Branch made some minor modifications to line items and separated capital improvements from operating expenses. Because the customers are funding the capital improvements, Branch modified the rate structure to include a limited-time surcharge for facilities improvement and a lower base rate. This should provide assurance to the customers that the water rate is related to system improvements. Branch believes memorandum accounting of expenses and revenue ordered in Res. W-3941 should be continued in order to ensure the receivership no net loss or gain on system operations.

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The Branch notes that an eminent domain process is being undertaken by SWCSA to obtain the assets of MCWW. 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.

Richardson has obtained a \$100,000 loan from Heritage Bank to initially pay application expenses for Richardson and the engineer to prepare and pursue a SDWBA Loan and, after such a loan is obtained, to provide construction financing for the project. The loan is short-term and will not result in a rate increase if the SDWBA loan is executed. After discussion with the Summit West Users group and others, all parties agreed to limit initial disbursements from the loan proceeds to \$50,000 for application expenses. Branch believes this is reasonable so that the remainder is available for initial design and construction. Summit West is concerned that DWR would not approve all engineering and administrative expenses already incurred. Therefore Branch recommends that payment for expenses be limited to \$50,000. No Heritage loan proceeds shall be expended beyond that amount until DWR commits to pay them.

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 1997. Because this rate increase is necessary only to recover operating expenses, and plant improvements contemplated are based only on customer contributions, no provisions were made for a return on rate base. Additionally, Branch believes no operating ratio is necessary because of the memorandum account protection in place to cover unexpected expenses or revenue shortfalls.

MCWW's filed tariffs currently contain one schedule, Schedule No. 1, Metered Service. MCWW serves approximately 147 customers of which five 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 \$200.00, or 186%, per month for one year. At the conclusion of that year the facilities surcharge expires and rates would fall to \$174.25 per month.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on October 30, 1996. One letter was received by the Branch. With the public notice, Richardson mailed a copy of two proposed budgets and asked that customers comment on them at a meeting November 19, 1996. During that meeting, a group of customers made an alternate presentation, which essentially corresponded to Richardson's lower proposed budget. Customers expressed support for the underlying goals of the receiver but questioned whether enough was being done to better the water supply situation. One conclusion of the meeting was that cooperation between the receiver and customers was essential to the speedy upgrade of the water system. A follow-up meeting was held after the public meeting to coordinate the actions of the two parties.

The public meeting was held at Loma Prieta School, approximately three miles from the service area. Approximately 40 customers attended. A Branch representative explained the Commission's ratemaking process and answered customer questions. The Receiver explained line items in his budget as well as the proposed SDWBA loan. The meeting lasted from 7 P.M. to 10:30 P.M.

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 is making changes to facilities and operations and has had a three-month gap in adequate revenue from rates, MCWW should continue to book memorandum account expenses to accounts authorized in Res. W-3941. Upon completion of the requested audit report on the memorandum accounts by the Accounting and Finance Branch, MCWW should file an advice letter to seek recovery of any balance in a surcharge or surcredit.
4. The Heritage Bank of Commerce loan is a short-term loan designed to provide construction financing and payment of prior administrative costs associated with the SDWBA loan. Because of the factors noted above, Branch believes this loan should be approved with the condition that the Receiver only draw \$50,000 from its proceeds to pay administrative and engineering costs until such time as a larger amount is approved for payment by DWR. Such a restriction will allow a large percentage of the funds advanced to go toward initial design and construction. Since the loan is issued with interest accruing until the SDWBA loan is executed or February 1997, no surcharge should be ordered at this time. In the event the SDWBA loan is not executed, MCWW should file an advice letter requesting a customer surcharge to pay off the bridging loan.
5. 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.
6. The facilities fees authorized herein should be in effect for one year only, because the total revenue generated is designed to fund specific projects over the next twelve months.
7. The Commission's prior order of a service connection moratorium in D. 88-09-071 should continue.
8. 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 Schedule No. 1, Metered Service, 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 schedule should be the date of filing.
2. Mt. Charlie Water Works is authorized to file an Advice Letter requesting amortization of balances in its existing memorandum accounts once the Accounting and Finance Branch issues its report on those balances. Memorandum accounting should continue until further Commission order.
3. Mt. Charlie Water Works, Inc. is authorized to establish a surcharge of \$25.75 per customer per month for twelve months for the sole purpose of funding capital improvements to the water system, specifically constructing an emergency water connection, replacing meter installations where necessary, and replacing its Ranch Road main line.
4. Mt. Charlie Water Works, Inc. is authorized to incur short term debt of \$100,000 for the purpose of advancing SDWBA loan application and construction costs. If the SDWBA loan is not approved, Mt. Charlie Water Works may file an Advice Letter to request the loan be paid off over a two-year period by a customer surcharge.
5. Mt. Charlie Water Works, Inc. is authorized to pay up to \$50,000 of its short-term loan proceeds to cover previously billed engineering and receivership services in pursuit of the SDWBA loan until such time DWR approves a larger expense claim.
6. 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.
7. Plant financed through the Facilities Fee Surcharge shall be permanently excluded from rate base for ratemaking purposes.
8. 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.
9. The Commission's previously ordered service connection moratorium continues in effect until future order of the Commission.

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10. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 20, 1996. The following Commissioners approved it:

Wesley Franklin
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

Mt. Charlie Water Works, Inc.

SUMMARY OF EARNINGS
Test Year 1997

Item	Utility Estimated		Staff Estimated		Staff
	Present Rates	Requested Rates	Present Rates	Requested Rates	Adopted Rates
<u>Operating Revenue</u>					
Loan Surcharge	0	58,032	0	58,032	0
Facilities Surch Metered	0	0	0	43,880	43,880
	<u>\$119,280</u>	<u>\$323,913</u>	<u>\$119,280</u>	<u>\$280,040</u>	<u>\$296,922</u>
Total revenue	\$119,280	\$381,945	\$119,280	\$338,065	\$296,922 ¹
<u>Operating Expense</u>					
Purchased Power	\$19,000	19,000	22,000	22,000	22,000
Purchased Water	86,436	86,436	86,076	86,076	86,076
Employee Labor	83,587	83,587	76,105	76,105	76,105
Materials	41,598	41,598	19,450	19,450	19,450
Contract Work	14,700	14,700	12,200	12,200	12,200
Transportation	2,925	2,925	2,925	2,925	2,925
Office Salaries	2,000	2,000	4,000	4,000	4,000
Management Salary	22,000	22,000	26,000	26,000	26,000
Office Services	7,925	7,925	7,925	7,925	7,925
Office Supplies	1,585	1,585	1,585	1,585	1,585
Professional Serv	16,000	16,000	9,500	9,500	9,500
Insurance	8,422	8,422	8,422	8,422	8,422
Amortize Memo Accts	0	58,032	0	58,000	0
General Expense	7,464	7,464	7,464	7,464	7,464
Subtotal	315,142	373,142	285,152	343,152	285,152
Property Taxes	0	0	1,500	1,500	1,500
Income Tax	0	0	0	0	0
Payroll Tax	10,270	10,270	10,270	10,270	10,270
Total Deductions	325,412	383,412	296,922	354,922	296,922
Net Revenue	(206,132)	(1,467)	(221,522)	(16,850)	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 \$43,880 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
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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

	Per Meter per Month Service Charge	Facilities Surcharge	(D) (D)
	(PER METER PER MONTH)		
Combined Service and Minimum Charge	\$174.25 (I)	25.75 (N) (D)	
Quantity Rate: For all water in excess of 500 cubic feet, per 100 cubic feet	\$4.25 (R)		

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 facilities fee surcharge of \$24.75 is in effect only for the months of January 1997 through December 1997. (C)
(C)
(D)

APPENDIX C
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Mt. Charlie Water Works
 COMPARISON OF RATES

A comparison of the present and Branch's recommended rates is shown below:

METERED SERVICE

	<u>Per Meter Per Month</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
For all residential meters	\$70.00	200.00	185.70%
Quantity Rates:			
Per 100 cu. ft.....	\$5.25	4.25	-19.05%

The meter charge is a combined readiness to serve charge and minimum quantity charge. It includes 500 cu. ft. of water per month. Usage for an average residential customer on a 5/8 x 3/4-inch service connection using 60 Ccf per year:

<u>Usage</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
100 cu. ft. 200	\$840.00	\$2,400.00	\$1,560.00	185.71%

APPENDIX D
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Mt. Charlie Water Works, Inc.

ADOPTED QUANTITIES
Test Year 1997

Expenses:

1. Purchased power	
Vendor	Pacific Gas and Electric
Multiple services	
Schedules	various
Electric Power Cost	\$22,000
2. Insurance Expenses	
General Liability Insurance	\$5,872
Automobile Insurance	\$ 750
Worker's Compensation	\$1,800
Total Cost	\$8,422
4. Ad Valorem Taxes	\$1,500
Composite Tax Rate	1.00%
Assessed Value	\$150,000
5. Payroll Taxes	\$10,270
6. Water Testing Expenses	none

Service Connections

Metered	
5/8 x 3/4-inch	142
Total Metered Customers	142
Metered water sales used to design rates	7,393 Gallons