

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4035
April 9, 1997

RESOLUTION

(RES. W-4035), PONDEROSA WATER COMPANY.
ORDER AUTHORIZING CLASS C AND D WATER
UTILITIES TO ESTABLISH A LATE CHARGE, TO
INCREASE THE CHARGES FOR RETURNED
CHECKS AND TO INCREASE THE CHARGE FOR
RECONNECTION OF SERVICE WHICH WAS
TURNED OFF FOR NONPAYMENT.

BY LETTER RECEIVED ON JANUARY 24, 1997.

SUMMARY

This resolution establishes charges for late payment of bills, for insufficient-fund checks and for reconnection of service disconnected due to nonpayment or violation of rules. Most utilities have some charge for these activities now, but many believe the current charges to be inadequate and out of date. Larger (Class A and B) utilities have generally established higher charges through showings in general rate cases. While these charges could be addressed in a generic proceeding or workshop, small utilities tend not to participate in such proceedings. Smaller utilities do not have general rate cases as often as the larger companies and consequently do not have the same opportunity to adjust these charges with a proper showing. This resolution establishes an adopted charge that can be implemented by Class C and D utilities without additional justification.

This resolution authorizes these fees and charges only for smaller class C and D utilities. Smaller utilities often operate at a lower margin than Class A and B companies, and the additional costs and delays in payment can cause operational or cash flow problems for the utility. Due to a lack of available personnel, the diversion of the employees or the owner to collection activities can adversely impact the other operations of the utility. These increased costs unfairly impose costs on customers who pay their bills in a timely manner and do not have their service disconnected for nonpayment or violation of rules. The imposition of these charges will recover all or part of the additional cost from the customers who cause the additional costs.

These charges are permissive charges that do not have to be collected. The utility may charge up to the amount allowed. Any charge over these amounts will require specific justification. While permissive charges can lead to discrimination in their application, these charges have not resulted in significant problems in the past.

Late Payment Charge:

The late payment of bills not only delays needed cash receipts to pay the utility's costs of doing business, but also imposes additional collection costs on the utility, which are paid by all customers. It would be more equitable to collect the additional revenue from the customers who caused the additional expense rather than from all customers. Also, the presence of a late payment charge

could cause more customers to pay their bills in a timely manner as they could no longer pay late without penalty.

Many government agencies, utilities, water suppliers, and other businesses impose a late fee for delinquent payments of amounts due. These range from carrying charges to compensate for the time value of money to severe penalties to insure timely payment. The imposition of late charges is becoming more common as businesses, such as banks, are moving to more competitive markets. Many water districts, mutuals, and other agencies which provide water service already impose late payment fees on delinquent accounts. Late charges are becoming a more common practice in the water industry.

The Small Water Branch (Branch) had opposed the establishment of a late payment charge in the past because tariff rules already have a provision to turn off the service to delinquent accounts. If this practice is followed, delinquent payments are not a significant problem. A generic proceeding could investigate the issues surrounding late payment fees and allow all interested parties the opportunity to participate and be heard. However, small utilities have unique problems with delinquent payments and need something to induce timely payments from delinquent customers, or to equitably charge customers who cause the extra expense. The imposition of the late payment charge must be consistent with the tariff rules and the laws concerning disconnection of service for nonpayment. There is a great diversity of levels of rates and conditions of water utilities within California. It has been difficult to effect one late charge that works for all water utilities.

Yermo Water Company was the first water utility to receive authority from the Commission to charge a late fee of \$5.00 on delinquent bills in 1993. This provision was instituted due to significant delinquent payment problems for Yermo Water Company.

In 1995, Cobb Mountain Water Company (CMWC), with 17% of accounts delinquent, declined a staff proposed \$5.00 late charge in favor of a pilot study for late charges of 1.5% of the overdue bill with a minimum charge of \$1.00. This was due to the unique nature of the rate structure of CMWC which serves a resort area with few year-round residents. After a one-year pilot study, CMWC determined that the late fee was effective in reducing delinquent payments and the late charge was made permanent.

Havasu Water Company also established a late charge of 1.5% with a minimum charge of \$1 in 1995. In Res. W-3940, dated September 7, 1995, for Havasu Water Company, the Commission authorized other Class C and D water utilities to file an advice letter to establish the 1.5% late charge with the one dollar minimum if they kept a log of the number of customers subject to the late charge and the amounts collected. This requirement was to allow the effectiveness of the charge and the amount of extra revenue collected to be reviewed during the utility's next general rate case. Some water utilities have filed to establish this late charge since it was the only late fee offered.

Other water utilities criticized the late fee because it only addressed the carrying cost of late payments and not the additional costs incurred. They pointed out that these costs would be paid by other customers of the water company. Also the 1.5% late charge with a minimum of \$1.00 effectively put in a \$1.00 late charge since the water bill would have to exceed \$66.67 for the \$1.00 minimum charge to be exceeded.

At the California Water Association meeting in November, 1996, the small water utilities specifically requested a different late charge and cited the additional costs involved in justifying a different late charge. The Branch requested some cost studies for the late charge. On January 27, 1997, Ponderosa Water Company (PWC) a Class D water utility serving 498 customers in an area two miles north of Tuolumne, California, sent cost calculations for additional costs due to

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late payments for staff review. PWC's calculations justify a \$5.00 late charge. The costs incurred are typical of the costs incurred by a small water utility for labor and materials involved notification and collection of the delinquent account.

Consequently, the Water Division recommends that a \$5.00 late charge be authorized as an alternative to the one authorized by Res. W-3940 as a generic late charge that can be established by filing a compliance advice letter with proper customer notification. Higher late charges could still be justified on a case by case basis and implemented by a resolution or decision in a general rate case proceeding.

Returned Check Charge:

Water utilities have had problems with returned checks in the past. In response to this the Commission passed Res. W-2638 on May 20, 1980, to revise Rule 9 to establish a \$5.00 charge for bad checks or electronic fund transfer procedure not honored. At that time, the Commission found that the additional cost to the utility for processing returned checks varied and the \$5.00 charge was in the mid range.

Since 1980, the costs have increased considerably. Banks often charge larger fees, and the costs of processing and collection have increased. The \$5.00 charge may no longer be sufficient to cover the costs. At the California Water Association meeting, many water utilities requested a higher returned check charge and cited increased charges by banks and the additional costs involved in reversing bookkeeping entries, collecting the check and reentering the amount. PWC provided a cost calculation and then suggested a somewhat higher cost for the returned check charge. This higher cost is due to the practice of customers paying with a bad check to avoid the disconnection of water service for non-payment or to avoid the charge for reconnection. This utility believes that a deterrent charge exceeding the actual costs is necessary. Small water utilities could be required to provide a cost justification to establish the returned check charge outside of the general rate case process since the costs and practices for returned checks vary throughout California, and it is not possible to determine one charge applicable for all areas or all small water utilities; however, the Water Division recommends instead that the Commission set a nominal charge that would help to defray all or part of the costs involved and allow small utilities to establish this generic charge without further justification or litigation.

Ponderosa Water Company sent cost calculations for additional costs due to processing and collecting which justified a \$20.00 returned charge as representative of the costs incurred by a small water utility for costs incurred by a returned check. The Division believes that the \$20.00 charge represents a reasonable returned check charge that should be allowed for small water utilities.

Reconnection Charge:

Rule 11 allows water utilities to charge for reconnecting water service that has been disconnected due to nonpayment or violation of rules. The Commission's General Order 103, Section 1.6.f., states that utilities may charge \$10.00 for reconnection of service during regular working hours and \$15.00 for reconnection of service at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours. This fee has been in effect for a long time while labor and processing costs have increased. Class A and B water utilities have justified and established higher reconnection charges in conjunction with general rate cases; however, small utilities do not have general rate case proceedings as often and do not have the time or resources to devote to calculation of costs of reconnection. At the California Water Association

meeting, small water utilities requested a higher reconnection charge and cited increased costs as justification. PWC provided a cost basis for a charge of \$25.00 during regular working hours and \$40.00 for other than regular working hours. The Water Division finds that these costs are representative of those for small utilities. Because the majority of these costs are associated with the travel and preparation for reconnection, not the reconnection itself, this charge should also be levied even when the customer attempts to pay the overdue bill at the time the disconnection is being done, in an attempt to avoid the reconnection fee.

FINDINGS

THE COMMISSION FINDS that:

1. A charge of \$5.00 on delinquent accounts is justified as an alternative to the late charge authorized in Resolution W-3940 for Class C and D water utilities.
2. A returned check charge of \$20.00 is just and reasonable for any check or electronic fund transfer not honored by the bank for Class C and D water utilities.
3. A reconnection charge of \$25.00 for reconnection during regular working hours and \$40.00 for reconnection at other than regular working hours is just and reasonable for Class C and D water utilities. This same charge should be levied on customers who attempt to avoid disconnection by paying an overdue bill to the employee who is on the premises to disconnect service.
4. Water utilities can request charges differing from these amounts with proper cost justification in conjunction with general rate case filings.
5. Class C and D water utilities shall notify customers about the increase in charges when filing the advice letter for the increase.

IT IS ORDERED that:

1. Class C and D water utilities are authorized to file an advice letter in conformance with General Order 96-A to establish or change the late payment charge to \$5.00 on delinquent bills, to establish or change the returned check charge to \$20.00, and/or change the reconnection charge to \$25.00 for reconnection during regular working hours and \$40.00 for other than regular working hours. The advice letters will become effective upon statutory notice (40 days).

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2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 9, 1997. The following commissioners approved it:


WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners