

WATER/FLC:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Advisory Branch**

**RESOLUTION NO. W-4133
February 4, 1999**

RESOLUTION

**(RES. W-4133), FRUITRIDGE VISTA WATER COMPANY (FVWC).
ORDER AUTHORIZING THE ESTABLISHMENT OF A MEMORANDUM
ACCOUNT FOR WATER SYSTEM MASTER PLAN COSTS.**

SUMMARY

By letter received December 15, 1998, this Resolution grants FVWC's request to establish a memorandum account to track the costs of creating a Water System Master Plan as required by the California Department of Health Services (DHS) and resulting program costs.

BACKGROUND

FVWC has been regulated by this Commission since 1953 and has always had some of the lowest rates of any regulated water utility. FVWC serves 444 metered customers and 4,101 flat rate customers in Fruitridge Vista and its vicinity, south of Sacramento in Sacramento County. Its rates for flat rate service are only \$10.95 per month. Metered service costs \$6.51 per month plus \$0.27 cents per 100 cubic feet of water used.

FVWC is a family owned water company. Like many similar enterprises, its growth has been financed by contributions-in-aid-of-construction provided by developers building homes and businesses, then requesting that FVWC extend its service area and provide service to their developments. Because water facilities are normally long lived, FVWC has not had to replace much infrastructure either. Consequently its rate base per customer is much smaller than normal at only \$206 per customer at the time of its last General Rate Case in 1996. This is part of the reason that its rates are so low.

In 1996 DHS reviewed the water demand data of FVWC and found that its capacity, without the system's largest single source, would not meet the peak hour demand. Also, as with many Central Valley water providers, FVWC is experiencing MTBE and PCE contamination, as well as high nitrate and magnesium levels at some of its wells, that may force the company to take wells off line. Wells number 11, 12 and 15 have already been shut down due to these contaminants. FVWC has initiated installation of annular seals around some of its wells and will need to seal all its well. Additionally the number of leaks in the FVWC distribution system is increasing from 53 in 1992 to 70 in 1995 and 41 in 1996. This level of leaks is unusually large for a system of this size. DHS recommends that FVWC commence planning for the development and funding of a water main replacement program and that it develop a plan for source water improvement. FVWC has contacted Boyle Engineering, which has estimated the cost of such a plan at \$106,170.

DISCUSSION

The Commission (PUC) and DHS have a Memorandum of Understanding (MOU) which has as its joint goal and responsibility to ensure that California water companies regulated by the PUC are economically maintaining safe and reliable water supplies. The MOU sets forth those policies and procedures which DHS and the PUC shall follow to achieve this mutual goal. We agree with the policies and practices of DHS in this matter and support the concept of a Master Plan. The Commission has authorized memorandum accounts for specific water quality improvements projects, and on June 22, 1994, by Resolution No. W-3856, authorized recovery of expenses of a similar plan for Armstrong Valley Water Company.

Normally the costs of this plan would be capitalized, and recovered when the facilities that the plan recommends are used and useful. In this case, however, although it is financially viable, FVWC anticipates problems raising this much new capital and sees significant problems funding its resulting infrastructure replacement needs. The family itself does not have the personal wealth necessary to complete the project, and it anticipates problems borrowing the money, given the size of the company. The problem of funding infrastructure replacement needs for water utilities exists nationwide, is quite familiar to everyone in the water regulatory profession, and is requiring governmental action to alleviate. The 1996 amendments to the federal Safe Drinking Water Act made approximately \$75 million per year available to California for five years to address this issue, but FVWC has not yet qualified for any funding from this source.

Consequently, the utility is proposing an innovative solution. It will work with staff to develop a "real-time funding" program to recover these costs in rates.

Because the program will extend over a substantial period of time, still to be determined but likely more than 20 years, the rate impact on the customers may be similar to the impact resulting from the utility financing the plant. While the details still have to be worked out, the first step is to establish a memorandum account for the engineering Master Plan.

A memorandum account is not a guarantee of eventual recovery of expenses, nor is it carried as a regular account under the uniform system of accounts for water utilities. It is carried "off the books", as a memo account. Our policy on memo account treatment has always been that the burden of proof of the reasonableness of expenses charged to the account is the responsibility of the utility requesting reimbursement of such expenses.

Also, the Commission said in the Southern California Water Co. Headquarters case, D. 92-03-094 (March 31, 1992) 43 Cal. P.U.C. 2d600:

"It is a well established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum account or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking. (Emphasis in original.)"

Therefore, we will only allow the tracking of those expenses incurred after the establishment of the account.

NOTICES AND PROTESTS

FVWC noticed its customers by publishing a legal notice in the Sacramento Bee on January 13, 1999. There have been no protests to this request.

FINDINGS AND CONCLUSIONS

1. FVWC is deficient in its pumping capacity.
2. Many of FVWC's wells are threatened with contamination by a variety of hazardous substances.

3. DHS strongly recommends FVWC investigate and remediate the contamination suffered by the wells that have been taken off line.
4. Some of FVWC's wells require the installation of annular seals and other improvements.
5. DHS recommends that FVWC begin a water main replacement program.
6. The Commission has approved memorandum accounts for water utilities for various expenses, including Master Plans.
7. The establishment of a memorandum account does not guarantee full recovery of the expenses booked to that account.
8. Only costs incurred subsequent to the effective date of this resolution may be booked into this account.

IT IS ORDERED that:

1. Fruitridge Vista Water Company is authorized to establish a memorandum account to track the costs of developing a Master Plan and a program to address the future needs of the utility.
2. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 4, 1999. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners