

WATER/FLC:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Advisory Branch**

**RESOLUTION NO. W-4162
August 5, 1999**

RESOLUTION

(RES. W-4162), ORDER AUTHORIZING AMBLER PARK WATER UTILITY (APWU) TO RECORD IN A MEMORANDUM ACCOUNT THE CARRYING COSTS OF AND DEPRECIATION ON INVESTMENT FOR THE REPLACEMENT OF A PRODUCTION WELL AND FOR APWU OR CALIFORNIA-AMERICAN WATER COMPANY (CAL-AM) TO FILE FOR RECOVERY IN 2002.

SUMMARY

By Advice Letter 32, filed June 23, 1999, APWU wishes to modify its Unanticipated Repair Cost Memorandum Account (URCMA) to include the carrying cost and depreciation on new plant associated with the replacement of a well. This resolution grants that request.

BACKGROUND

By Decision D.92-03-093, March 31, 1992, Ordering Paragraph 2, all Class C and D water utilities were authorized to establish an URCMA to record repair costs that were unanticipated when rates were set and were crucial to the operation of the utility. Since that date, in response to a number of requests, this Commission has allowed recovery of costs booked into these accounts.

During May of 1999, APWU discovered a problem in one of its two production wells. While the well pump was being pulled for inspection, the last column shaft and pump detached from the remaining column and fell down the well. As they fell, the pump and column shaft tore holes in the side of the well casing. Because the well casing is constructed out of Polyvinylchloride pipe instead of concrete, the casing could not be repaired and the well will have to be redrilled. The utility estimates it will take about three months to redrill the existing well.

APWU is in the process of transferring its assets to Cal-Am as authorized by D.98-09-038, September 3, 1998. In that proceeding customers were promised that their next rate increase would not occur prior to Cal-Am's next General Rate Case (GRC) for its Monterey Division in 2002.

APWU's last general rate case (GRC) was A.96-03-016, resulting in D.96-12-004, December 9, 1996. In that decision the rate base was set at \$329,278. Cal-Am estimates APWU's current rate base is \$317,660. In its filing, APWU estimates the cost of drilling a replacement well will be \$300,000.

APWU is exploring legal action against the company that was pulling the pump and column shaft. Pending that action, APWU needs to go forward with the replacement well. Since this well will not be put into rate base until 2002, the utility is concerned about losing the carrying costs on its investment and any depreciation incurred from the time the well is used and useful until 2002. It is requesting that it be allowed to track its investment as allowance for funds used during construction (AFUDC) and any depreciation accruing from the date the well is put in service in its URCMA.

DISCUSSION

The Commission's General Order 103 requires that all regulated water utilities have at least two sources of supply. APWU has only one remaining well. This well is able to supply adequate water to the system, but the pumping equipment recently failed and the utility had to retrofit it with a used pump and accessories. This was accomplished within 8 hours, and no customers were out of water. Because of the uncertainty of the reliability of this equipment, the utility is ordering a replacement pump, column, shaft and accessories to have on hand in the event of a failure. This will cost about \$ 16,000.

Normally plant replacement or improvements do not require memorandum account protection. The cost of these activities is booked to Plant in Service when the facilities become used and useful. Water utilities that regularly replace plant are provided with construction work in progress (CWIP) which increases rate base to allow for estimated plant improvements between GRCs. For major projects, a utility may be allowed AFUDC.

Small water utilities usually do not have a regular plant replacement program and therefore do not benefit from CWIP. Normally the small company repairs or improves its facilities and immediately files for a rate base offset to earn a return on its investment. Since such repair or improvement is normally done quickly, the loss of the carrying cost on the investment between the time construction was started and the facilities become used and useful is negligible. In fact, in those situations where the utility needs to

borrow money to repair or improve plant, which is usually the case with small water utilities, the principal and interest cost is passed through directly to ratepayers, nullifying utility risk.

In this case, Cal-Am will advance the money to APWU to redrill and equip the well. But APWU will still have to pay carrying costs on the advance, and will still incur depreciation costs on these facilities until the date of transfer. After that date, Cal-Am will incur such costs. Because Cal-Am is a Class A water utility, it may not be eligible for recovery of these expenses, but the Commission can address the issue of the reasonableness of Cal-Am's recovery when it files its GRC.

In either case, customers will not see a rate increase until 2002. Without this action, either APWU or Cal-Am will forego for more than two years the carrying cost on its investment and any accrued depreciation from the date the new pump is put in service. APWU (or Cal-Am) thus would have a financial incentive to delay the replacement as long as possible, to minimize those losses. This is not the incentive that should exist. There is also the issue of fairness, since Cal-Am is providing the funding, the facilities are necessary, and rates should cover costs. The customers will benefit from the increased reliability of the replacement of the well, and the utility will still have the burden of proof to justify recovery (including its efforts to recover from the company that was hired to pull the pump) before any of these costs will be passed through to ratepayers. Based on these precepts, the Water Division recommends that the Commission authorize memorandum account protection in this case.

NOTICE AND PROTESTS

Because this filing will not result in a rate increase at this time, no notice to the customers is required. The utility that owns the system will provide notice when it files its next GRC in 2002.

FINDINGS AND CONCLUSIONS

1. An adequate supply of water is necessary for health and safety.
2. One of Ambler Park Water Utility's (APWU) production wells is inoperable. The remaining well does not meet our General Order 103 requirements for supply reliability.
3. The costs for redrilling the inoperable well are substantial.
4. APWU is being acquired by California-American Water Company (Cal-Am).
5. Cal-Am has committed to not raise rates to Ambler Park's customers until completion of its next general rate case for its Monterey District in 2002.

6. The results of pursuing possible legal action against the drilling company are not known at this time.
7. Expansion of APWU's Unanticipated Repair Cost Memorandum Account to include carrying costs and depreciation is in the public interest.
8. Expedient replacement of the damaged well is in the public interest, so this resolution should be made effective immediately.

IT IS ORDERED that:

1. Ambler Park Water Utility (APWU) is authorized to book to its Unanticipated Event Memorandum Account (UEMA) carrying costs and depreciation expenses that it incurs in conjunction with the redrilling of its inoperable production well.
2. If it has completed its purchase of APWU's facilities, California-American Water Company (Cal-Am) is authorized to file to recover the balances in APWU's UEMA when it files its Monterey District General Rate Case in 2002.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on August 5, 1999. The following Commissioners approved it.



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners