

WATER/FLC/ABJ:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Advisory Branch**

**RESOLUTION W-4176
December 16, 1999**

RESOLUTION

**(RES. W-4176), DEL ORO WATER COMPANY, LIME SADDLE
DISTRICT (LSD). ORDER REQUIRING LSD TO INSTITUTE
AND MAINTAIN A FULL COST WATER SUPPLY BALANCING
ACCOUNT.**

SUMMARY

This Resolution orders LSD to institute and maintain a full cost water supply balancing account, effective immediately and file a general rate case (GRC) within 180 days.

BACKGROUND

LSD, a District of Del Oro Water Company (DOWC), a Class B Water Utility System, serves approximately 250 metered customers in the vicinity of the town of Paradise, Butte County. At the time of its last GRC (Res. W-3789, dated July 8, 1993), LSD was purchasing all of its water from Stirling Bluffs Corporation, a DOWC subsidiary. This water was processed and wheeled to LSD by the Paradise Irrigation District. Although LSD had two functional wells at that time, they were both dry due to the effects of the six-year drought in California. In Res. W-3789, LSD was authorized \$78,920 in rates to recover the estimated purchased water cost for test year 1993, assuming that all water supply was to be purchased. The Water Advisory Branch (Branch), in a recent review of LSD's Annual Reports to the Commission, discovered that since 1993, the utility has been supplementing its purchased water supply with water pumped from its two now functional wells. The amount of water pumped has varied from year to year. Because pumping water from its own wells is significantly cheaper than purchasing water, LSD's water supply cost since 1993 (purchased water cost + pumping costs) has been significantly less than the amount allowed in Res. W-3789. For example, in 1998, LSD's recorded purchased water cost plus pumping cost totaled \$56,536, which is \$22,384 less than the \$78,920 amount it is currently recovering through rates pursuant to Res. W-3789.

Additionally, LSD customers are paying fairly high water rates. The average monthly bill for an LSD customer is approximately \$37.50. Staff has regularly received complaints and concerns from LSD customers about their high rates.

DISCUSSION

The savings in water supply cost being experienced by LSD, as described above, could mean that the utility is earning a return in excess of the return currently found reasonable for its parent company, DOWC. On the other hand, operating costs have probably risen considerably since rates were last set in 1993. If DOWC were a Class A utility, Branch would request that the Commission issue an Order Instituting Investigation (OII) to allow Water Division staff to audit the utility and determine if its rates should be reduced. Since Class B, C and D utilities are regulated informally (D.92-03-093, March 31, 1992, OP 9), Branch is requesting that the Commission adopt this resolution in lieu of an OII to protect the customer's interests, and to order the utility to prepare and file an advice letter GRC to determine the proper cost basis for rates. Specifically, to insure that customers are not harmed prospectively by the possibility of LSD over earning due to the significant savings in water supply costs, Branch recommends that LSD be required to immediately institute and maintain a full cost water supply balancing account to track the difference between recorded water supply cost (purchased water + purchased power) and the water supply cost (purchased water) authorized in Res. W-3789.

The Commission has historically not instituted full-cost water supply balancing accounts for water utilities under its jurisdiction that have several sources of water supply (primarily Class A water utilities). It has, instead, used an incremental cost balancing account as described in the document JOINT TECHNICAL WORKSHOP OF THE CPUC STAFF AND WATER INDUSTRY, LOS ANGELES, JUNE 21, 1983, SAN FRANCISCO, JUNE 23, 1983: SUBJECT "PROCEDURES FOR MAINTAINING BALANCING ACCOUNTS FOR WATER UTILITIES" By: Robert Bennett and Wesley Franklin. The rationale for using an incremental cost balancing account for these utilities is that the mix of water supply sources is predictable. With the known water supply mix, a full-cost water supply balancing account would only serve as a disincentive for the utility to find more efficient or less costly ways to obtain its water supply. In the case of LSD, however, the supply mix is not very predictable due to the unstable water table, and the use of an incremental cost balancing account could still lead to windfall profits. In this instance a full-cost balancing account (as has traditionally been used for energy fuel costs) is appropriate.

Branch also recommends that DOWC be ordered to file a general rate case for LSD. It has been six years since the last GRC and the cost-basis for rates may have changed significantly. This requirement is in accordance with Public Utilities Code Section 314.5

which requires "The commission shall inspect and audit the books and record for electrical, gas, heat, telegraph, telephone and water corporation serving 1,000 or fewer customers." This audit requirement is normally met by Branch through the filing of a GRC.

Branch will review the cost basis of the company during the GRC and make appropriate adjustments to the full-cost balancing account balance to assure that the utility is prospectively earning a reasonable rate of return.

FINDINGS

THE COMMISSION FINDS that:

1. LSD was purchasing all of its water supply at the time of its last general rate case in 1993.
2. LSD was authorized \$78,920 in rates to recover estimated purchased water costs in its last general rate case for test year 1993.
3. Since 1993, LSD has been supplementing its purchased water supply with water pumped from its two functional wells, significantly reducing its total cost of water
4. In order that customers are not harmed by the possibility of LSD over earning due to the significant savings in water supply costs, the Branch recommends that LSD be required to immediately institute and maintain a full cost water supply balancing account to track the difference between recorded water supply cost (purchased water + purchased power) and the water supply cost (purchased water) authorized in Res. W-3789.
5. In order to determine the proper cost basis for rates, the Branch recommends that DOWC be ordered to file a GRC for LSD within 180 days.

IT IS ORDERED that:

1. Del Oro Water Company, Lime Saddle District (LSD), shall institute and maintain a full cost water supply balancing account to track the difference between recorded water supply cost (purchased water + purchased power) and the water supply cost (purchased water) authorized in Resolution W-3789.
2. Within 180 days, LSD shall prepare and file an informal general rate case by advice letter, as authorized by Decision 92-03-093.

3. Since the possibility for over earning is immediate and ongoing, this resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 16, 1999. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

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