DATE OF ISSUANCE: 06/04/2019

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION **RESOLUTION W-5193**
May 30, 2019

RESOLUTION

(RES. W-5193) DEL ORO WATER COMPANY. ORDER AUTHORIZING A SURCHARGE OF $10.54 PER CUSTOMER PER MONTHLY BILLING, OVER TWELVE MONTHS TO RECOVER LOST REVENUES RECORDED IN ITS LOST REVENUE MEMORANDUM ACCOUNT, TO BE PAID BY THE RATEPAYERS.

SUMMARY

By Advice Letter (AL) No. 511, filed on March 1, 2019, Del Oro Water Company (Del Oro) seeks to recover $800,000 from a potential $1,218,116 in lost revenues expected to be recorded in the company's Lost Revenue Memorandum Account (LRMA) through a proposed surcharge of $10.54 per customer per monthly billing across all of its districts for a period of twelve months.

This Resolution authorizes a monthly surcharge of $10.54 for twelve months to recover the lost revenue balance of $800,000 expected to be recorded in DOWC's LRMA.

BACKGROUND

The state of California faced its deadliest and most destructive wildfire when the CAMP Fire struck the town of Paradise and the community of Concow on November 8, 2018. The fire covered an area of 153,336 acres and destroyed around 18,804 structures. Acting Governor Newsom also issued a proclamation declaring a State of Emergency for Butte County on November 8, 2018. Unfortunately, the community of Concow and the town of Paradise were destroyed within the first six hours of the fire, losing an estimated 95 percent of their buildings. The town of Magalia also suffered substantial damage, and the community of Pulga suffered losses as well. The fire eventually reached 100 percent containment after seventeen days on November 25, 2018.

Del Oro, a Class B water utility, requests authority under General Order (G.O.) 96-B and Section 454 of the Public Utilities Code to increase rates to recover $800,000 from an estimated $1,218,116 in lost revenues expected to be recorded in the company's LRMA due to the CAMP fire in Butte County. Del Oro's LRMA was established on

November 9, 2018 by AL 508 to allow the utility to track the lost revenues stemming from the November 2018 CAMP Fire offset by the cost savings associated with lowered sales from volume-related items such as power, funding from any governmental source, and any insurance or litigation proceeds received by Del Oro for the specific purpose of offsetting lost revenue.

The CAMP Fire caused significant damage to Del Oro's Paradise Pines, Magalia, Lime Saddle, and Buzztail Districts. Del Oro suffered losses of its customer base of 38% in its Paradise Pines District; 50% of its Lime Saddle District; 89% of its Magalia District; and 34% of its Buzztail District. This reduced Del Oro's total customer base by 26%, with a total of 2,221 service connections lost. The significant loss of customers in Del Oro's four affected districts has lead to revenue shortfalls of over $100,000 per month compared to previously authorized revenue requirements.

NOTICE AND PROTESTS

In accordance with GO. 96-B, Del Oro served a copy of AL 511-W to its service list on March 1, 2019. A notice of the proposed rate increase was mailed to each customer and to the general service list on March 1, 2019 as well. A total of 7,025 notices were mailed out to each of Del Oro's customers across all of its 19 districts.

70 protests were received that raised concerns about the proposed surcharge and the actions Del Oro was taking to mitigate the financial impact of the fire. Some of the concerns raised against the surcharge were from customers outside of the four affected districts stating that they should not have to pay for the costs incurred in the four affected districts. Other customers that protested the surcharge stated that they were retired, or living on fixed incomes, so it would be a financial hardship to pay for an increase in their water bills. Several customers in their protests argued that Del Oro should have done more to protect itself from a significant loss like this through its insurance. Other customers stated that Del Oro could afford to absorb more of these revenue losses rather than imposing this surcharge on its customers. Additionally, some protests asked Del Oro to provide further detailed calculations regarding how the surcharge was developed and the bill impact provided in the AL.

Del Oro replied to each of these protests and responded to the concerns raised about the proposed surcharge. Del Oro, in its replies, stated that the proposed surcharge has been requested to keep Del Oro fully operational by sharing its operational expenses statewide across all of its districts, and that there is no profit being collected from the requested surcharge. Del Oro also stated that this surcharge is a temporary solution as it re-evaluates its statewide operational costs and recovery methods to offset lost revenue and bring back lost customers. Del Oro responded to the claims made in protests regarding its insurance coverage and stated that the utility has been paying for insurance that covers mainly utility equipment but not the loss of customers. Del Oro is also actively participating in the Class Action lawsuit against PG&E and is currently in litigation with its insurance agent and company. Del Oro has stated that it is still seeking governmental sources for support and any funds that it receives from insurance proceeds, governmental sources, or litigation outcomes will be tracked in the balancing account against the revenue shortfall collection. The offset in savings from this collection would go back to Del Oro's customers and would be reflected in the balancing account. Del Oro is also continuing to minimize its expenses as much as possible during this difficult time and is providing an extension of time for customers to pay their bills by an extra seven days before sending out late notices. Additionally, Del Oro provided further details of the surcharge calculation to those that requested it and stated that the bill impact provided in AL 511 was an illustrative example for an average customer, and the actual bill impact will depend on future usage by customers.

DISCUSSION

As a direct result of the CAMP Fire, Del Oro faces a unique disaster in terms of lost revenues due to lost customers. Given the history of the effects of prior devastating wildfires on communities, it is highly unlikely that destroyed customer connections will be restored quickly, and revenues will be restored. Instead, given the requirements of hazardous waste removal and additional building codes, it is likely that homes in Del Oro's service territory will be rebuilt over many years, if at all, and customer growth will be a very long and slow process. Consequently, Del Oro must adjust its revenue requirement to a totally new paradigm.

As a Commission-regulated water utility, Del Oro operates under cost of service ratemaking where the Commission determines the Revenue Requirement, or the cost of service, that reflects the total amount of revenues that must be collected in rates for the utility to provide water service to its customers. Del Oro was previously authorized $2,878,171 in total revenue requirement for the four affected districts of Paradise Pines, Lime Saddle, Magalia, and Buzztail through prior Commission Resolutions and General Rate Cases (GRCs)[1]. Unfortunately, Del Oro suffered the loss of 2,221 service connections from the CAMP Fire, and these service connections provided revenues of $1,218,116 that are now lost with Del Oro being unable to recover these costs through

[1] Paradise Pine's last GRC was authorized through Resolution W-5032, effective May 7, 2015. Lime Saddle's last GRC was authorized through Resolution W-5003, effective October 16, 2014. Magalia's last GRC was authorized through Resolution W-5012, effective November 6, 2014. Buzztail was acquired by Del Oro through Resolution W-5068, effective November 19, 2015, that set forth the rates and authorized revenue requirement for the district.

current rates. Still, Del Oro is providing the same level of service with its operational costs allocated across each of its districts, since Del Oro is a Class B multi-district water utility that provides water service to nineteen districts throughout California. Del Oro allocates its operations & maintenance staff, customer service personnel, accounting & management team, funding for system upgrades, and other costs across all of its districts so that no one district bears the full cost of these services. These operational costs are divided among Del Oro's nineteen districts as the costs to provide water service to each of the district's customers. Included in these operational costs are fixed costs that Del Oro incurs to provide water service to its customers, and these costs are unaffected by the revenues that Del Oro collects from its customers. Del Oro must maintain its distribution system in full operation, thus causing these costs regardless of whether or not it collects the total revenue requirement previously authorized by the Commission. In this case, Del Oro is seeking recovery of a portion of those operating costs through the proposed surcharge while absorbing some of this revenue shortfall.

Prior to the CAMP Fire, Del Oro served a total of 8,548 service connections across its nineteen districts, with a total of 5,386 connections in the four affected districts. Del Oro lost 2,221 service connections in the CAMP Fire and is still providing water service to the remaining 3,165 connections in the four affected districts. These districts operated with a total revenue requirement of $2,878,171. Del Oro faces a current revenue shortfall of $1,218,116 that it anticipates to record in its LRMA due to the number of service connections lost. However, Del Oro is seeking to recover $800,000 of the expected revenue shortfall through its request in AL No. 511 with a surcharge of $10.54[2] added to customer bills, for a period of twelve months. Del Oro is electing to absorb a portion of these lost revenues in consideration of the catastrophic losses that customers suffered in the CAMP Fire.

Nevertheless, Del Oro is unable to continue absorbing these revenue losses as it maintains the same level of water service provided to its customers as its operational costs still need to be recovered from a smaller number of service connections. The cost to serve the remaining number of connections remains at the same level prior to the Fire, and Del Oro bears the burden in providing the same level of water service to its customers while maintaining its current operations at a safe and reliable level. Also, Del Oro is currently providing extensive flushing and water testing services for these remaining connections in the four affected districts under the guidelines imposed by the State Water Resources Control Board (SWRCB) regarding water quality as well as assisting with the maintenance of service connections from destroyed properties leading to additional operating expenses. No water quality issues have been found after testing was completed in the affected areas. While Del Oro may absorb some of these costs, it has already recorded significant amounts in its LRMA that continues to

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[2] The $10.54 surcharge is derived by taking the expected shortfall amount of $800,000 divided by 6,327, the total number of remaining customers, and divided by 12 for monthly amount.

incur balances, so Del Oro is seeking to recover a portion of that balance in this instant case.

Del Oro has currently recorded a balance of $424,478 as of March 31, 2019 in its LRMA, but the utility is seeking to implement a surcharge to recover the anticipated revenue shortfall that it expects to record in its LRMA. Traditionally, the Commission authorizes a utility to amortize a memo account once the utility has recorded a balance with a full justification of the expenses incurred, and a recorded earnings test is conducted for the calendar year during which the expenses were incurred. This balance is then transferred from the memo account to a balancing account to be collected through a surcharge for recovery.[3] Del Oro's request for recovery was not made in the traditional sense as it was made after unprecedented losses were incurred by the utility from the CAMP Fire, and it continues to face anticipated revenue shortfalls that it will record in its LRMA. Although the Commission generally sets the balance for recovery with a memo account amortization request based on the amount recorded in the memo account, it acknowledges that Del Oro is dealing with unique circumstances in this instant case with its surcharge request. Del Oro's request for a statewide surcharge covers an anticipated revenue shortfall that currently exceeds the balance of $424,478 recorded in its LRMA. Based on the current 5-month balance recorded in its LRMA, Del Oro anticipates recording a balance of $1,218,116 during the effective 12 months of the proposed surcharge. Still, Del Oro is seeking to recover $800,000 of that anticipated $1,218,116 through its proposed surcharge. In order to safeguard Del Oro's ratepayers from any over- or under-collection of the proposed surcharge, the Commission is ordering Del Oro to convert its LRMA to a balancing account so that this account will serve as an accounting mechanism to match the revenue losses that Del Oro continues to incur with the surcharge revenues that it collects over the twelve-month period. This balancing account will also track the surcharge revenues against any proceeds that the utility may receive from governmental or litigation sources.

The Commission is also ordering Del Oro to file a General Rate Case (GRC) prior to the expiration of the surcharge to adjust the previously authorized sales forecast for the affected districts to account for the number of service connections lost in the CAMP Fire. This GRC sales forecast adjustment should prevent Del Oro from accumulating further large balances of anticipated revenue shortfalls by adjusting the previously authorized revenue requirements to take into account the reduced number of customers. Del Oro can also reallocate its statewide and regional operating expenses that are currently included across its districts by spreading the expenses across the current count of 6,327 customers compared to the prior count of 8,548 customers. The Commission will also have an opportunity to review the surcharge collection when Del Oro files its GRC and make adjustments as needed.

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[3] Standard Practice U-27-W outlines the procedures for water utilities to amortize memo accounts.

To recover the balance in a memorandum account, the utility must demonstrate that: 1) it acted prudently when the costs were incurred; 2) the memorandum account costs are not covered by other authorized rates; 3) the claimed amounts are reasonable and appropriate for the procured services; and 4) it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates.

Based on the requirements listed above, the Water Division (WD) finds that Del Oro acted prudently in incurring the costs and lost revenues recorded in its LRMA. Del Oro, through no fault of its own, incurred the loss of 2,221 service connections from the CAMP Fire and is experiencing revenue shortfalls of over $100,000 per month since the Fire. Del Oro is currently participating in the Class Action Lawsuit against PG&E to recover its losses and offset some of these costs. Del Oro is also in litigation with its insurance agent and company, so that any proceeds resulting from this litigation would offset the lost revenues accrued in the memo account. Additionally, Del Oro is still seeking out governmental sources for financial support as well. Even if Del Oro were to receive any grant funding, the utility would not profit in any way from the receipt of public funds.[4] The cost savings resulting from these sources would be allocated to its customers and be reflected in the balancing account to offset the revenue shortfall, but receipt of the funds from these potential sources will take time as the litigation runs its course.

The WD reviewed Del Oro's under-collected revenue calculation and concurs with Del Oro's computation. The WD confirmed that collecting the balance of $800,000 from the estimated $1,218,116 in lost revenues Del Oro expects to record will not result in Del Oro exceeding its last authorized ROR of 10.80%. This account balance has not been requested or covered by other authorized rates as Del Oro is currently operating under its previously authorized rates while incurring significant operating costs from the effects of the CAMP Fire as discussed previously.

The WD also determined that the amounts Del Oro claimed in the LRMA are reasonable, since Del Oro is seeking to collect $800,000 from a potential $1,218,116 expected to be recorded in lost revenues. Del Oro was previously authorized a set revenue requirement for the four affected districts that it is currently unable to collect on. Del Oro is seeking to recover a portion of the revenue shortfall from previously authorized rates, and it has elected to absorb some of that shortfall while maintaining water service for its existing customers. Del Oro is currently putting on hold annual improvements in the amount of $400,000 for the repair and replacement of plant items

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[4] D. 06-03-015 dated March 2, 2006 in Rulemaking 04-09-002 stated that grant-funded plant should be accounted for in the same manner as Contributions in Aid of Construction (CIAC), but as a distinct account and record. In this decision, the rules adopted are designed to preserve the public interest integrity of future state grant funds by ensuring that investor-owned water utilities and their shareholders do not profit in any way from the receipt of public funds.

while the utility has already lost $424,478 in authorized revenues as of March 31, 2019 that it has recorded in its LRMA. Del Oro can not continue to delay these capital improvements while maintaining the annual operational needs across all of its districts. Del Oro's requested amount of $800,000 would allow the utility to keep its utility operations at a sufficient level to provide safe and reliable water service.

The WD therefore finds it appropriate for Del Oro's ratepayers to pay for the under-collected revenue balance of $800,000 expected to be recorded in Del Oro's LRMA. The ratepayers already receive the benefits of operational cost sharing among Del Oro's nineteen districts to provide water service to each of its customers so that no one district bears the full operating costs of these services. Del Oro's proposal to spread the surcharge equally among its districts also represents the utility's efforts to provide an equitable sharing of its revenue shortfall. Accordingly, the balance of $800,000 should be collected through a surcharge of $10.54 added to customer bills, for a period of twelve months.

COMMENTS

Public Utilities Code section 311(g)(1), provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, the draft resolution was mailed to the service list, protestants, and made available for public comment on April 30, 2019.

Two comments were received. The first comment requested further explanation about how the surcharge was calculated, while the second comment expressed concern about communication with the utility. No changes are made herein.

SAFETY CONSIDERATIONS

The approval of the surcharge requested by Del Oro provides the utility the necessary financial resources to safely operate and maintain its operations for the benefit of its customers, employees, and members of the public.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.
The utility has been filing annual reports as required.

FINDINGS

1. By Advice Letter (AL) No. 511-W, filed on March 1, 2019, Del Oro Water Company (Del Oro) seeks to recover $800,000 from a potential $1,218,116 in lost revenues expected to be recorded in the company's Lost Revenue Memorandum Account (LRMA) through a proposed surcharge of $10.54 per customer per monthly billing across all of its districts for a period of twelve months.

2. AL No. 511 was served on the service list on March 1, 2019 in accordance with the provisions of General Order (G.O.) 96-B.

3. A notice of the proposed surcharge was mailed to each of Del Oro's customers across each of its nineteen districts.

4. From a total of 7,025 notices sent, 70 protests were received, and Del Oro responded timely to each protest.

5. The Water Division (WD) reviewed the under-collected amount of $800,000 expected to be recorded in Del Oro's LRMA and found no discrepancies in the accounting procedure and account entries.

6. The WD confirmed that the account balances in Del Oro's LRMA have not been requested or covered by other authorized rates; and the amounts claimed are reasonable for the services procured.

7. It is appropriate for Del Oro to collect the under-collected revenue balance of $800,000 expected to be recorded in its LRMA.

8. The WD confirmed that collecting the balance of $800,000 will not result in Del Oro exceeding its last authorized Rate of Return of 10.80%.

9. Del Oro is currently putting on hold annual improvements in the amount of $400,000 for the repair and replacement of plant items while the utility has already lost $424,478 in authorized revenues as of March 31, 2019 that it has recorded in its LRMA.

10. Del Oro can not continue to delay these capital improvements while maintaining the annual operational needs across all of its districts.

11. Del Oro's requested amount of $800,000 would allow the utility to keep its utility operations at a sufficient level to provide safe and reliable water service.

12. Del Oro should convert the LRMA to a balancing account and revise the language in its preliminary statement.

13. Del Oro should be permitted to recover the amounts expected to be recorded in the balancing account by imposing a surcharge of $10.54 per customer per monthly billing across all of its districts for a period of twelve months.

14. The surcharge of $10.54 per customer per monthly billing is expected to generate a balance of $800,000 that Del Oro expects to incur as revenue shortfalls recorded in the balancing account.

15. Del Oro should be allowed to file a supplement to AL No. 511 to incorporate the revised rate schedules including the requested surcharge and to concurrently cancel its presently effective rate schedules.

16. Del Oro should file a General Rate Case (GRC) prior to the expiration of the surcharge to adjust the previously authorized sales forecast of its affected districts to account for the number of service connections lost in the CAMP Fire.

17. This GRC sales forecast adjustment should prevent Del Oro from accumulating further large balances of anticipated revenue shortfalls and provide the Commission with an opportunity to review the surcharge collection at that point in time as well.

THEREFORE, IT IS ORDERED THAT:

1. Del Oro Water Company is permitted to transfer the amount of $800,000, the balance expected to be recorded in its Lost Revenue Memorandum Account, to a balancing account for recovery over a period of twelve months. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.

2. Del Oro Water Company is permitted to recover the amounts in the balancing account reflected in Ordering Paragraph 1 above by imposing a surcharge of $10.54 per customer per monthly billing across all of its districts for a period of twelve months.

3. Del Oro Water Company shall file a supplemental Advice Letter to change the Lost Revenue Memorandum Account into the Lost Revenue Balancing Account in its Preliminary Statement and concurrently cancel its presently effective language in its Preliminary Statement. The effective date of the revised Preliminary Statement shall be five days after the date of filing.

4. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company to file a supplemental Advice Letter with the rate schedules for each district including the proposed surcharge and concurrently cancel its presently effective rate schedules. The effective date of the rate schedule shall be five days after the date of filing.

5. Del Oro Water Company shall file a General Rate Case (GRC) prior to the expiration of the surcharge authorized in Ordering Paragraph 2 to adjust the previously authorized sales forecast for the affected districts to account for the number of service connections lost in the CAMP Fire and provide the Commission with an opportunity to review the surcharge collection at that point in time as well.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on May 30, 2019; the following Commissioners voting favorably thereon:

/s/ALICE STEBBINS

ALICE STEBBINS
Executive Director

MICHAEL PICKER
President
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
Commissioners

DEL ORO WATER COMPANY
ADVICE LETTER NO. 511
SERVICE LIST

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Protestants of Advice Letter 511