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California Public Utilities Commission
DIVISION OF RATEPAYER ADVOCATES

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EDMUND J. TEIXEIRA
Director

August 20, 1992

TO: ALL CLASS A WATER UTILITIES

Subject: Combining of Water Utility Districts

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AUGUST 20 1992

SERVICE COMPANY
WESTERN REGION

Gentlemen:

In an effort to decrease the work load associated with the large number of rate cases each year, the staff of the Division of Ratepayer Advocates and representatives of Class A water utilities have met and developed the criteria and procedures for combining districts of Class A water utilities. Enclosed is the "Guidelines for Combining of Water Districts."

It is requested that multi-district Class A water utilities perform surveys for the purpose of combining districts according to the Guidelines and inform the staff by October 1992, of your intent and the names of those districts that will be combining.

The draft of the justification and comparative data of the proposed combining districts should be ready for discussion in the November 1992 CWA Meeting.

If you have any questions, please call Han Ong, Supervisor of Large Water Utilities Section, at (415) 703-1138.

Very truly yours,


JOHN YAGER, Manager
Energy and Water O/C Branch

Enclosure

cc: Joe Young, CWA President
Daniel Conway
Joel Dickson
Stan Ferraro
John Barker
Han Ong

GUIDELINES
FOR
COMBINING OF WATER UTILITY DISTRICTS
FOR RATE-MAKING AND
PUBLIC UTILITIES COMMISSION REPORTING PURPOSES

Background

At the present time, the majority of Class A Water Utilities consist of several districts for rate-making and Public Utilities Commission reporting purposes. Many of these district boundaries are the result of smaller companies being purchased by the larger companies with the original smaller company becoming a district of the acquiring company.

In an effort to decrease the regulatory case load associated with the large number of rate-making districts, the Public Utilities Commission DRA Staff has suggested that utilities consider combining several of their present rate-making districts. Several of the companies have also indicated an interest in combining districts. Therefore, on June 11, 1992, representatives of the water utilities met with Mr. Han Ong of the DRA Staff to establish the criteria and procedures for combining districts as discussed below.

Criteria For Combining Districts

The following were established as the four criteria to be met when considering the combining of districts:

1. Proximity

The districts must be within close proximity to each other.

It would not be a requirement that the districts be

contiguous as it is recognized that present rate-making districts often consist of separate systems which are not connected. It was suggested that districts within 10 miles of each other would meet the location criteria.

2. Rate Comparability

Present and projected future rates should be relatively close with rates of one district no more than 25% greater than rates in the other district or districts. To lessen the rate impact of combining districts it may be necessary to phase-in the new rates over several years.

3. Water Supply.

Sources of supply should be similar. If one district is virtually dependent upon purchased water, while another district has its own source of supply, future costs could change by a greater percent for one district versus the other. This could result in significantly different rates in the future even if present rates were quite similar.

4. Operation

The districts should be operated in a similar manner. For example, if a single district manager presently operates two or more districts and the billing system is common to the same districts, such an operation would support the combination of the districts.

It was agreed that no districts would be combined for the express purpose of having one district subsidize another. It was also agreed that there was no specific intent in developing a single statewide rate for any of the multi-district water

companies. The intent of this combining of districts is to reduce the regulatory case load for both the Public Utilities Commission Staff and the individual water utilities without adverse affect on the utilities' customers.

Procedures for Combining Districts

All water utilities are first requested to review their existing districts to determine which meet the criteria discussed above. For those districts which do meet the criteria, the following procedure is to be followed. This procedure is based on the Commission approving the combination of two or more districts as part of a general rate case filing.

1. At lease nine months prior to the scheduled Notice of Intent filing date, the utility should request DRA Staff approval, by letter, for combining districts. This letter should be accompanied by documentation as required to show compliance with the criteria discussed above.
2. Within six months of the scheduled Notice of Intent filing date, the DRA Staff, by letter, will either approve or disapprove the combination.
3. If DRA Staff approves the combination, the utility will be allowed to file its Notice of Intent and rate case application based on the revenue requirement for the newly combined district, and the DRA Staff will not oppose the combination in the rate case proceeding. However, the company must be prepared to support its request if any intervenor should challenge the request.

4. The utility must maintain separate records for each individual district until such time as the Commission approves that the districts be combined. The annual report to the Commission for the calendar year in which the combination was approved should be made on a combined district basis.
5. It is expected in some cases it may be necessary to blend the implementation of new identical rates. This could result from the rates in one district having a proportionately larger or smaller service charge component than the other or rates in one district being higher or lower than the other. To accommodate such a possibility it will be necessary to provide separate water use forecasts for the districts being combined, until the rates have been combined.