

DRAFT

WATER/ABJ/KKE;jlj

AGENDA ITEM #1550

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4370
January 16, 2003**

RESOLUTION

**(RES. W-4370), TIMBERLAND WATER COMPANY (TWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUES OF
\$29,793 OR 78.89% IN 2003.**

SUMMARY

By Draft Advice Letter accepted on November 16, 1999, TWC seeks to increase its rates to recover increases in operating costs and a return on its rate base at an adequate rate of return. The company requested the Informal General Rate Case (IGRC) application be delayed until a new storage tank became used and useful. The storage facility is now used and useful per its final building inspection approval on October 22, 2002.

For test year 2003, this resolution grants an increase in gross annual revenues of \$29,793 or a system-wide increase of 78.89%. The increase will provide a 13.50% rate of return on rate base of \$154,637.

BACKGROUND

TWC provides domestic water service to 118 residential flat rate connections, 13 metered customers and, per written agreement, provides fire protection water service to 12 fire hydrants. The service territory is in the Timberland Subdivision, three miles south of Tahoe City on Lake Tahoe, Placer County.

TWC's present rates became effective on January 18, 2002, upon approval of a Consumer Price Index-Urban (CPI-U) increase of \$1,214 or 3.4% for year 2000 pursuant to Commission Decision (D.) 92-03-093, dated March 31, 1992. TWC's last general rate increase was authorized in November 1992 by D.92-11-006 when the current owner bought the system.

TWC requested authority under §VI of General Order 96-A and §454 of the Public Utilities Code to increase rates for water service by \$34,393 or 93.70% in 2003. TWC's

request shows 2003 gross revenue of \$37,403 at present rates increasing to \$73,164 at proposed rates.

DISCUSSION

The Water Division (Division) made an independent analysis of TWC's operations and issued its report in November 2002. Appendix A shows TWC's and the Division's estimates of the summary of earnings at present, requested and adopted rates for the test year 2003. Appendix A shows differences between TWC's and the Division's estimates in operating revenues and operating expenses.

TWC was informed of the Division's differing views of revenues and expenses and stated that it accepts the Division's estimates.

Most of the differing views are due to a reassignment of the expenses per the Uniform System of Accounts. Overall, utility's requested expenses and rate base calculations were reduced by the Division (expenses a total of \$3,504, and rate base a total of \$14,960) effectively lowering rates. Listed below pre account are the differences between the utility's request and the accepted amounts determined by the Division.

- ***Other Volume Related Expenses***

Part of the utility's request assigned to the Materials account is actually expenses that need to be accounted for in the "other volume related expenses" to account for expenses related to the volume of water used not accounted for in the sub account of Contract Work, of Lab and DHS Fees.

- ***Materials***

Part of the utility's request assigned to the Materials account is actually part of the calculation of the rate base as an asset account titled Materials & Supplies. Included in this account are such items as the materials and supplies on hand that purchased for use in plant construction or repair work. The original application had a zero dollar amount in the Materials & Supplies account.

- ***Lab and DHS Fees***

The difference here is mostly for the monthly testing required by the Department of Health Services (DHS). The utility's request was about \$50 short of the annual fee (in 2002 dollars) charged small Class D utilities with no consideration of the monthly testing required.

- ***Management Salaries***

The Division negotiated with the utility and it agreed that a monthly salary of \$1,000 is appropriate for the owner to receive, particularly since many of the connections are of a flat rate nature.

- ***Uncollectible Expense***

The Division inquired to why this value was so in comparison to the total revenue requirement and was informed that the dollar amount supplied was based on the outstanding amount at the time of filing. The utility was informed that the value is normally an estimate for the year as a percentage of the revenue and agreed that \$300 was a reasonable estimate on a yearly basis.

- ***Office Service and Rentals***

The utility uses a dedicated part of its residential home for this purpose and does claim this as expense on its income taxes. Therefore, it is reasonable to receive funds to cover the expenses associated with maintaining an office for the utility.

- ***Office Supplies and Expenses***

The Division determined the amount requested was partially correctly allocated to Office Service and Rentals and adjusted the account accordingly.

- ***General Expense***

The owner did not include such items as subscriptions, water association fees, and expenses associated with collections in this account. Thus, the Division estimated that a monthly expense of \$62.50 was appropriate.

- ***Depreciation Expense***

The utility had forgotten that there had been a contribution made by the school that must be subtracted from its rate base, thus reducing the depreciation expense. The difference is \$80.

- ***Income Taxes***

The differing views on the income expense is due to the difference in needed revenue.

- ***Average Depreciation Reserve***

There was no depreciation accrual shown in the application itself. Using the correct figures, the company's calculations and the Division's calculation were different by \$2,281. The utility accepted the calculation of the Division.

- ***Net Plant***

This differs by the amount shown in the Average Depreciation Reserve account.

- **Contributions**

This was inadvertently missing in the utility's application. The difference was discussed and the owner agreed that a contribution of plant had been accepted from the School now on the system.

- **Working Cash**

Using the method implemented in the Advice Letter Rate Adjustment Workbook for Water Utilities Regulated by the CPUC, TWC is entitled to a working cash fund. The Branch computed this amount (\$652) based on expenses and the percentage of metered connection revenues.

- **Rate Base**

This amount is \$14,960 lower than requested by the utility and the differing views have been explained in the above accounts.

TWC's original draft advice letter requested rates that it estimated would produce a return on rate base of 13.75%. The Summary of Earnings in Appendix A shows a rate of return of 13.50% at Division's recommended rates. This rate of return is the upper limit of the rate of return range of 12.50% to 13.50% for Class D water utilities recommended by the Commission's Audit and Compliance Branch. The Division found the utility to be well run with very few complaints, both from the Commission's Consumer Services Division and during the processing of this rate increase request. Based on these findings that the Division recommends the upper limit of the rate of return range.

Under guidelines established in D.92-03-093, the Commission staff must calculate net revenues by both the rate base/return method and the operating ratio method, selecting the method that produces the most revenue. Using a 20% operating ratio in the operating ratio method calculation, the rate base/return method produces greater revenue in this case.

TWC is in compliance with all Commission orders. TWC needs to update the following: Title Page; Rules 5 - Special Information Required on Forms; 7 - Deposits; 8 - Notices; 9 - Rendering and Payment of Bills; 10 - Disputed Bills; 11- Discontinuance and Restoration of Service; 15 - Main Extensions; 16 - Service Connections, Meters, and Facilities; 19 - Service to Separate Premises and Multiple Units, and Resale of Water; 20 - Water Conservation; and 21 - Fire Protection; and Forms 2 - Customer's Deposit Receipt; and 3 - Bill for Service.

TWC's filed tariffs currently contain three separate rate schedules: 1A - Annual General Metered Service; 2RA - Annual Residential Flat Rate Service; and 5 - Public Fire Hydrant Service. At the Division's recommended rates shown in Appendix B, the yearly bill for a typical 3/4-inch flat rate customer will increase from \$230.00 to \$430.00, a \$200.00 or 86.96% percent increase. At the Branch's recommended rates, the monthly

bill for a 5/8 x 3/4-inch metered residential customer using the system average of 4.6 hundred cubic feet (One Ccf) would increase from \$14.32 to \$27.85 per month, a \$13.53 or a 94.48% increase.

A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PROTESTS

A notice of the proposed general rate increase was mailed to each customer on January 15, 2000. No responses to the notice of the rate increase were received. Two complaints were lodged at the CPUC's Consumer Affairs Branch (CAB) between 1992 and the present. All complaints were handled in a timely manner. In order to promote greater ratepayer awareness during the rate increase process, a Public Meeting was held on February 10, 2000, at 7 p.m. to afford customers the opportunity to be heard and to ask questions about the proposed increase and the approval process. Location of the meeting was near the service territory at 330 Fairway Drive --Fireside Room, Fairway Community Center, Tahoe City, California. A field visit to review TWC's expenses and other quantities and to inspect its facilities was completed by a Division staff member.

The meeting began at 6:35 p.m. with nine customers present, all owners of property within the service territory. The staff engineer explained the Commission procedure and purpose of the meeting. Mr. Ballard, TWC's owner, made a presentation to explain the need to install a new tank. Mr. Ballard answered all questions regarding the tank costs and how installation costs were to be recovered. There were no further questions or comments and the meeting ended at 7:35 p.m.

FINDINGS AND CONCLUSIONS

1. The summary of earnings (Appendix A) developed by the Division is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used in preparation of this report are reasonable and should be adopted.
4. TWC should be ordered to update its Title Page; Rules 5 - Special Information Required on Forms; 7 - Deposits; 8 - Notices; 9 - Rendering and Payment of Bills; 10 - Disputed Bills; 11 - Discontinuance and Restoration of Service; 15 - Main Extensions; 16 - Service Connections, Meters, and Facilities; 19 - Service to Separate Premises and Multiple Units, and Resale of Water; 20 - Water Conservation; and 21 - Fire Protection; and Forms 2 - Customer's Deposit Receipt; and 3 - Bill for Service.

5. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code §454 for Timberland Water Company to file an advice letter incorporating the Summary of Earnings and the revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate schedules - 1A, Annual General Metered Service, and 2RA, Annual Residential Flat Rate Service and Public Fire Hydrant Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of its filing.
2. The rate increase proposed by the Branch is justified, and the resulting rates are just and reasonable.
3. Timberland Water Company is ordered to update the following: Title Page; Rules 5; - Special Information Required on Forms; 7 - Deposits; 8 - Notices; 9 - Rendering and Payment of Bills; 10 - Disputed Bills; 11 - Discontinuance and Restoration of Service; 15 - Main Extensions; 16 - Service Connections, Meters, and Facilities; 19 - Service to Separate Premises and Multiple Units, and Resale of Water; 20 - Water Conservation; and 21 - Fire Protection; and Forms 2 - Customer's Deposit Receipt; and 3 - Bill for Service.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 16, 2003; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

DRAFT

Resolution W-4370

January 16, 2003

TWC/ DR AL/ABJ/KKE:jlj

Appendix A Summary of Earnings

Item	Utility Estimated		Branch Estimated		Commission
	Present	Requested	Present	Requested	ADOPTED
		13.50 ROR			13.50% ROR
Operating Revenue					
Metered	10,263	16,019	10,263	16,019	16,734
Flat	26,920	56,925	27,288	56,925	50,585
Fire Hydrant	220	220	220	220	245
Total Revenue	37,403	73,164	37,771	73,164	67,564
Operating Expenses					
Purchased Power	1,500	1,500	1,500	1,500	1,500
Other Vol. Related exp.			400	400	400
Materials	4,000	4,000	2,000	2,000	2,000
Contract Work	200	200	200	200	200
Lab and DHS Fees	500	500	1,205	1,205	1,205
Trans Expense	2,000	2,000	2,000	2,000	2,000
Management Salaries	15,000	15,000	12,000	12,000	12,000
Employee Pens & Bens	1,817	1,817	1,817	1,817	1,817
Office Salaries	3,600	3,600	3,600	3,600	3,600
Uncollectible Expense	1,380	1,380	300	300	300
Ofc. Service and Rentals	0	0	1,200	1,200	1,200
Ofc. Supplies and Exp.	1,604	1,604	1,200	1,200	1,200
Professional Services	1,475	1,475	1,475	1,475	1,475
Insurance	3,771	3,771	3,771	3,771	3,771
Regulatory Expense	50	50	50	50	50
General Expense	75	75	750	750	750
Subtotal	36,972	36,972	33,468	33,468	33,468
Depreciation Expense	6,290	6,290	6,210	6,210	6,210
Other than income tax	954	954	954	954	954
Income Taxes	800	6,052	800	7,324	6,063
Total Deductions	45,016	50,268	42,548	48,821	46,695
Net Revenue	-7,613	22,896	-4,777	24,343	20,869
Rate Base					
Average Plant	229,998	229,998	229,998	229,998	229,998
Average Depr. Reserve	64,531	64,531	66,812	66,812	66,812
Net Plant	165,467	165,467	163,186	163,186	163,186
Less: Contributions	0	0	13,201	13,201	13,201
Plus: Working Cash	130	130	652	652	652
Plus: Material & Supplies	4,000	4,000	4,000	4,000	4,000
Rate Base	169,597	169,597	154,637	154,637	154,637
ROR = Net Rev/Rate Base	-4.49%	13.50%	-2.37%	16.30%	13.50%

APPENDIX B
Sheet 1

Timberland Water Company
Test Year 2003

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Timberland and vicinity, located approximately three miles south of Tahoe City, Placer County.

RATES

Quantity Rate:

All Water, per 100 cu. ft.....\$1.51 (I)

Annual Service Charge:

	Per Meter	
	<u>Per Year</u>	
For 5/8 x 3/4-inch meter	\$250.80	(I)
For 3/4-inch meter	375.60	
For 1-inch meter	625.80	
For 1.5-inch meter	1,251.60	
For 2-inch meter	2,002.80	
For 3-inch meter	3,755.40	
For 4-inch meter	6,258.00	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

(continued)

APPENDIX B (continued)
Sheet 2
Schedule No. 1A
(continued)

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a resident of the area has been a customer of the utility for at least 12 months, he or she may elect, at the beginning of the utility calendar, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods for water used.
2. The charge for water used may be billed monthly, bimonthly or quarterly at the option of the utility.
3. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charges shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.
4. All water bills are subject to the reimbursement fee set forth in Schedule No. UF.

(D)

APPENDIX B (continued)
Sheet 3
Timberland Water Company
Test Year 2003

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential services furnished on an annual basis.

TERRITORY

Timberland and vicinity, located approximately three miles south of Tahoe City, Placer County.

RATES

	Per Service Connection	
	<u>Per Month</u>	
For each-single-family residential unit, including premises	\$430.00	(I)
For each additional single family residential unit on the same premises and served from the same service connection	275.00	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. An additional single family residential unit shall qualify for additional charge only if such a residential unit included cooking and bathing facilities.
3. For services covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

APPENDIX B
Sheet 4

Schedule No. 2RA
(continued)

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (continued)

4. The annual flat rate charge applies during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he or she may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of not less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing period.
5. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of this initial annual charges shall be due to the customer.
6. All water bills are subject to the PUC Reimbursement Fee set forth in Schedule No. UF.

(D)

APPENDIX B
Sheet 5

Timberland Water Company
Test Year 2003

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts, and other political subdivisions of the State, per written agreement. (N)

TERRITORY

The unincorporated area including Timberland Subdivision and vicinity, located approximately three miles south of Tahoe City, Placer County.

RATE

(D)
Per Month
Per written agreement.....\$245.00 (N)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection, charges shall be made at the quantity rates under Schedule No. 2RA, Annual Residential Flat Rate Service.
2. The relocation of any hydrant shall be at the expense of the party requesting relocation.
3. Fire hydrants shall be attached to the utility's distribution system upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the size of hydrant and the specific location at which each is to be installed.
4. The utility will supply only such water at such pressures as may be available from time to time as a result of its normal operation of the system.
5. All water bills are subject to the reimbursement fee set forth on Schedule No. UF.
6. Per §2713 of the Public Utilities Code, this tariff is authorized per written agreement between Timberland Water Company and the local fire department. (N)
(N)

APPENDIX C

COMPARISON OF RATES

**Timberland Water Company
Test Year 2003**

	Annual Rates			
	Present Metered	Adopted		
METERED		Flat	Metered	Percent Increase
Service Charge:				%
5/8 x 3/4-inch meter	134.92		250.80	85.89
3/4 - inch	202.33		375.60	85.64
1-inch	337.26		625.80	85.55
1 1/2 - inch	654.65		1,251.60	91.19
2-inch	1,077.75		2,002.80	85.83
3-inch	2,023.82		3,755.40	85.56
4-inch	3,380.36		6,258.00	85.13
FLAT	Present FLAT			
Residential	230.00	430.00		86.96
Additional unit	148.17	275.00		85.60
QUANTITY CHARGE	Present		Proposed	
All water, per 100 cu.ft.	0.67		1.51	125.37
<i>A monthly comparison bill for a customer with a 3/4-inch meter is shown below:</i>				
Usage in CCF (100 Cu. Ft.)	Present Bill	Adopted Bill	\$ Increase	% Increase
0	11.24	20.90	9.66	85.94
4.6 average	14.32	27.85	13.53	94.48
10	17.94	36.00	18.06	100.67
15	21.29	43.55	22.26	104.56
20	24.64	51.10	26.46	107.39
<i>A monthly comparison bill for customers with flat rate service is shown below:</i>				
Type of connection	Present Bill	Proposed Bill	\$ Increase	% Increase
Residential flat rate	19.17	35.83	16.66	86.91
Additional/Commercial	12.35	22.92	10.57	85.59

APPENDIX D

ADOPTED QUANTITIES

Timberland Water Company

Test Year 2003

Taxes

Federal Tax Rate	15%
State Tax Rate	8.84%

Ad Valorem Taxes \$954

Tax Rate	1.000%
Other tax and fees	0.038296
Assessed Value	\$45,975

Expenses

Purchased power..... \$1,500

Sierra Pacific Power Company

Rate Schedule	A - 1
Effective Date of Schedule	3/4/02
kWh Used Total	16,007
kWh Used - Summer	12,806
kWh Used - Winter	3,201
\$/kWh - year round	0.08771
Customer Charge	\$96.00

Payroll

Management Salary	\$12,000
Office Salary	\$3,600
Total Payroll	\$15,600
Payroll taxes.....	\$1,817

Water Testing (contract labor).....\$1,205

APPENDIX D ADOPTED QUANTITIES (continued)

**Timberland Water Company
Test Year 2003**

Service Connections

<i>Metered Rate:</i>	
5/8x3/4-inch	6
1-inch	5
2-inch	1
3-inch	1
Total metered	13
Metered water sales used to design metered rates	4,200 Ccf
 <i>Flat Rate/Fire Hydrant</i>	
Residential	118
Fire Hydrant	12
Total Flat/Fire Hydrant	130
Total Connections	143

Adopted Tax Calculations

**Timberland Water Company
2003 Test Year**

Line	Item	State Tax	Federal Tax
		\$\$	\$\$
1.	Operating Revenues	67,564	67,564
2.	Expenses	33,468	33,468
3.	Taxes other than Income	954	954
4.	Depreciation Expense	6,210	6,210
5.	Interest	none	none
6.	Taxable Income for State Tax	26,932	
7.	State Tax (at 8.84%)	2,381	
8.	Taxable Income for FIT		24,551
9.	Federal Income Tax (at 15%)		3,683
10.	Total Income Taxes		6,063