

PROPOSED RESOLUTION

RES. W-4986
DWA/RSK/BMD/AJT/ds4

AGENDA ID #: 13003

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-4986
June 12, 2014

RESOLUTION

**(RES. W-4986) LAS FLORES WATER WORKS. ORDER
AUTHORIZING A GENERAL RATE INCREASE TO
PRODUCE ADDITIONAL ANNUAL REVENUE OF \$2,837,
OR 11.2%, FOR TEST YEAR 2014.**

SUMMARY

By Advice Letter (AL) No. 38, filed on October 10, 2013, Las Flores Water Works (Las Flores) seeks to increase its gross revenues by \$7,236, or 28.7%, for Test Year (TY) 2014. Las Flores' rate increase request is based exclusively upon an increase in operating expenses and there are no new water plant additions.

For TY 2014, this resolution grants an increase in gross annual revenues of \$2,837, or 11.2%, which is estimated to provide gross annual revenues of \$28,225 based on a Rate of Margin (ROM) of 21.69%.

BACKGROUND

Las Flores is a Class D water utility that has requested authority under General Order (G.O.) 96-B, General Rule 7.6.2, Water Industry Rule 7.3.3(5), and Public Utilities Code §454 to increase its water revenues by \$7,236, or 28.7%, to provide a Rate of Return (ROR) on rate base of 12.0%.

The purpose of the rate increase request is to recover increased operating expenses and to provide an adequate ROR on plant investment. Las Flores' 2013 Annual Report shows gross revenues of \$25,388 at present rates increasing to \$32,423 at proposed rates. Las Flores is requesting a ROR of 12.0%. The last general rate case for Las Flores was granted on June 26, 2008, by Resolution (Res.) W-4692, which granted an increase of \$2,015, or 7.8%, with a 13.25% ROR on rate base for TY 2008.

Las Flores serves an unincorporated community of Las Flores, located roughly nine miles south of the City of Red Bluff, Tehama County. Las Flores' service area covers approximately one square mile of territory. Las Flores serves 57 metered customers.

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Las Flores is owned by the Patterson Trust, with Donald E. Crain as the named trustee, and Mr. Shan Patterson as the Trust caretaker. The Patterson Trust was formed in early 1992 and Las Flores' ownership was transferred from Mr. and Mrs. Patterson to the Trust in December 1992.

The Patterson Trust also owns two other water systems: Vista Grande Water System and Mira Monte Water Company. All three water utilities are operated by Mr. Shan Patterson. He is the manager and does the general maintenance; Mrs. Patterson does the office work and they have a part-time employee for meter reading. Any repairs that Mr. Patterson is unable to do are contracted out.

The three CPUC regulated utilities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). The shared expenses are allocated to each company on a percentage based on the number of customers each utility serves.

NOTICE, PROTESTS, AND PUBLIC MEETING

Las Flores mailed a notice of the proposed rate increase to its customers on February 1, 2014. The Division of Water and Audits (Division) received no letters in opposition to the proposed increase in rates.

Division staff and Las Flores representatives held a public participation meeting at 5:00 PM on February 24, 2014 at the Gerber Las Flores Community Service District Office for the company's customers. No customers attended the public meeting, however, one member of the community was present. Division staff explained the Commission rate-setting procedures, while Las Flores's representatives cited justifications for the proposed rate increase. The remainder of the meeting consisted of comments and questions by the public. The meeting ended around 6:00 PM.

DISCUSSION

The Division made an independent analysis of Las Flores' operations. Appendix A shows Las Flores' and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2014. Las Flores is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

Division staff reviewed operating revenues and expenses including purchased power, employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. Division staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

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Las Flores has requested a ROR of 12.0%. The Division's Utility Audit, Finance and Compliance Branch (UAF&CB) recommended a ROR from 10.80% to 11.80% for a Class D, 100% equity-financed utility. Two methods are available for the Division to utilize in the rate-making process: (1) ROR and (2) ROM. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per Decision 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the ROM method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the ROM. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the ROR method was used, a utility with little or no rate base would earn little or no return. UAF&CB has recommended a ROM of 21.69% for Class D water utilities. A comparison of the two methods indicates that the ROM method produces a higher revenue requirement; therefore, the Division recommends the ROM method at 21.69%, the UAF&CB recommended ROM.

Las Flores' rate structure consists of one schedule: Schedule No. 1, General Metered Service. The rates proposed by the Division are shown in Appendix B. At the recommended ROM, the increase in revenue will be \$2,837, or 11.2%, for TY 2014.

Operating Revenues

Las Flores' operating revenues consist of general metered sales. There are currently 57 active service connections and 12 inactive connections. For the test year, Las Flores does not expect to add or lose any customers. The Division concurs.

Operating Expenses

Las Flores and the Division differ in estimates for operating expenses as discussed below. For the operating expense categories, Las Flores applied an escalation factor of 1.7% based on the Consumer Price Index for all Urban Consumers (CPI-U) for 2012. The Division instead applied an updated escalation factor of 1.5% (CPI-U for 2013) to escalate expenses for TY 2014.

Purchased Power

Las Flores' 2013 Annual Report lists a purchased power expense of \$6,332. This is lower than the amount proposed by the utility of \$9,764. Las Flores indicated that the reduction in purchased power was likely due to the installation of a new variable frequency drive at the source pump. As such, the Division escalates the recorded 2013 amount by the escalation factor to arrive at its estimate of purchased power cost of \$6,427 for TY 2014.

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Materials

Las Flores' 2013 Annual Report indicated a materials expense of \$331, higher than the proposed amount of \$168. The Division escalates the recorded 2013 amount by the escalation factor to arrive at its estimate of \$338 for TY 2014.

Regulatory Commission Expense

Las Flores proposed \$645 for regulatory commission expense for TY 2014. The Division requested Las Flores to provide workpapers and substantiation to support the total estimate, amortized over a three-year period. The utility did not respond. Based on discussions with the consultant assisting Las Flores with the preparation of the advice letter, the Division recommends a total expense of \$1,152, amortized over three years, for a TY 2014 estimate of \$384.

Depreciation

Las Flores originally filed a depreciation expense of \$2,716 for TY 2014 in its AL dated October 10, 2013. This line item was later revised to \$1,992 in the 2013 Annual Report on April 6, 2014. The Division uses \$1,992 for the 2014 depreciation expense.

Other Operating Expenses

All other operating expenses, as estimated by Las Flores, including contract work, transportation expense, maintenance, office salaries, management salaries, office services and rentals, office supplies and expenses, professional services, insurance, and general expenses were all reviewed by the Division and found to be reasonable.

Rate Base and Plant Investment

Las Flores does not propose any plant additions for TY 2014.

Rate Design

Las Flores did not submit a proposed rate design with its advice letter filing. For Class D utilities, the Division's standard practice is to allow a utility to recover 100% of its fixed costs in the service charge. To apply this standard in the instant case, the quantity rate would drop by half. Given that we are in a severe drought, the Division recommends that the quantity rate remain constant at \$1.45 per 100 cubic feet of water. The monthly service charge has been accordingly increased to meet the revenue requirement.

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Metered water sales used to design rates

Las Flores' 2013 Annual Report, Schedule F – Income Statement, indicates 2013 total operating revenues of \$25,388, of which \$15,110 was recovered through the monthly service charge. Therefore, the remaining \$10,278 was recovered through the quantity charge. Assuming an average quantity rate of \$1.43 per CCF for 2013, metered water sales used to design rates yields 7,188 CCF.

Rates

At the Division's recommended rates shown in Appendix B, the average bill for a 5/ 8 x 3/4-inch metered residential customer using 14 CCF per month would increase from \$42.39 to \$46.33, or 9.0%. 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.

COMPLIANCE

Las Flores is currently providing water service to its customers according to the standards of G.O. 103-A. Las Flores has been filing annual reports with the Division.

Las Flores has no outstanding complaints since its last general rate case and there are no outstanding Commission orders requiring system improvements. Las Flores has no outstanding compliance orders and has been filing annual reports as required. Tehama County performs inspections regularly and finds that the system has no deficiencies.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), the otherwise 30-day period for public review and comment is exempt.

FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits (Division) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.

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3. The quantities (Appendix D) used to develop the recommendations of the Division are reasonable and should be adopted.
4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code, Section 454, for Las Flores Water Works to file a supplement to Advice Letter No. 38 to incorporate the rate schedules (Appendix B), and to concurrently cancel its presently effective Rate Schedule No. 1, Metered Service. The effective date of the revised rate schedule shall be 5 days after the date of filing.
2. Las Flores Water Works is authorized to increase the Test Year 2014 water revenues by \$2,837 or 11.2%.
3. 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 June 12, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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APPENDIX C Las Flores Water Works

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<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended Rates</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
<u>Operating Revenue</u>					
General Metered Revenue	\$25,388	\$32,423	\$25,388	\$32,423	\$28,225
General Unmetered Revenue	\$0	\$0	\$0	\$0	\$0
Reclaimed Water Sales	\$0	\$0	\$0	\$0	\$0
Private Fire	\$0	\$0	\$0	\$0	\$0
Other Water Revenue	\$0	\$0	\$0	\$0	\$0
Other Unmetered Revenue	\$0	\$0	\$0	\$0	\$0
Total Revenue:	\$25,388	\$32,423	\$25,388	\$32,423	\$28,225
<u>Operating Expenses</u>					
610 Purchased Water	\$0	\$0	\$0	\$0	\$0
615 Purchased Power	\$9,601	\$9,764	\$9,601	\$9,764	\$6,427
618 Other Volume Related Expenses	\$1,208	\$1,229	\$1,208	\$1,229	\$1,226
630 Employee Labor (Labor Capitalized)	\$0	\$0	\$0	\$0	\$0
640 Materials	\$205	\$168	\$205	\$168	\$336
650 Contract Work	\$3,168	\$3,222	\$3,168	\$3,222	\$3,222
Water Testing	\$0	\$0	\$0	\$0	\$0
660 Transportation Expenses	\$920	\$1,476	\$920	\$1,476	\$1,476
664 Other Plant Maintenance	\$53	\$64	\$53	\$64	\$64
670 Office Salaries	\$700	\$3,106	\$700	\$3,106	\$3,106
671 Management Salaries	\$1,900	\$805	\$1,900	\$805	\$805
674 Employee Benefits	\$0	\$0	\$0	\$0	\$0
676 Uncollectibles Expense	\$250	\$254	\$250	\$254	\$254
678 Office Services & Rentals	\$0	\$0	\$0	\$0	\$0
681 Office Supplies & Expenses	\$496	\$666	\$496	\$666	\$666
682 Professional Services	\$1,166	\$512	\$1,166	\$512	\$512
684 Insurance	\$420	\$600	\$420	\$600	\$600
688 Regulatory Commission Expense	\$378	\$645	\$378	\$645	\$384
689 General Expenses	\$113	\$113	\$113	\$113	\$115
Subtotal	\$20,578	\$22,624	\$20,578	\$22,624	\$19,192
Depreciation	\$2,671	\$2,716	\$2,671	\$2,716	\$1,992
Taxes other than Income	\$868	\$883	\$868	\$883	\$868
Income Taxes	\$800	\$1,612	\$800	\$1,612	\$1,390
Interest	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$24,917	\$27,835	\$24,917	\$27,835	\$23,442
Net Revenue (ROR)	\$471	\$4,588	\$471	\$4,588	\$4,511
Net Revenue (ROM) - Applied					\$4,783
Rate Base:	\$38,230	\$38,230	\$38,230	\$38,230	\$38,230
Rate of Return (ROR)	1.23%	12.00%	1.23%	12.00%	11.80%
Rate of Margin (ROM)					21.69%

(END OF APPENDIX A)

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APPENDIX B Las Flores Water Works

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Las Flores, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates		
All water, per 100 cu. ft.	\$ 1.45	
Service Charge		
For 5/ 8 x 3/ 4 - inch meter	\$26.03	(I)
For 3/ 4 - inch meter	39.05	
For 1 - inch meter	65.08	(I)

SPECIAL CONDITIONS

1. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option be furnished on the account of the landlord or property owner.
2. A late charge will be imposed per Schedule No. LC.
3. All bills are subject to the reimbursement fee set forth in Schedule UF.

(END OF APPENDIX B)

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APPENDIX C

Las Flores Water Works

Test Year 2014

COMPARISON OF RATES

METERED SERVICE	Per Service Connection Per Month		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/ 8 x 3/ 4 - inch meter	\$22.09	\$26.03	18.0%
For 3/ 4 - inch meter	\$33.13	\$39.05	17.9%
For 1 - inch meter	\$54.77	\$65.08	18.8%
Quantity Charge:			
All water, per 100 cu. ft.	\$1.45	\$1.45	0.0%

Comparison of a monthly typical bill for residential metered customers with a 5/ 8 x 3/ 4 - inch is shown below at current rates and recommended rates for Test Year 2008.

Usage 100 cu. ft.	Present Rates	Recommended Rates	Percent of Increase
0	\$22.09	\$26.03	18.0%
8	33.69	37.63	12.0%
11 (avg.)	38.04	41.98	10.0%
14	42.39	46.33	9.0%
20	51.09	55.03	8.0%

(END OF APPENDIX C)

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APPENDIX D Las Flores Water Works

TEST YEAR 2014

ADOPTED QUANTITIES

Purchased Power
Pacific Gas & Electric Co.
Schedule A-1 Small General Service
TOTAL ENERGY COST: \$6,427

<u>Meter Size:</u>	<u>Service Connections</u>
5/ 8 x 3/ 4-inch meter	57
TOTAL:	57

Metered water sales used to design rates: 7,188 Ccf

INCOME TAX CALCULATIONS

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1	Operating Revenue	\$28,225	\$28,225
2	O & M Expenses	\$19,192	\$19,192
3	Taxes Other Than Income	\$868	\$868
4	Depreciation	\$1,992	\$1,992
5	Taxable Income for State Tax	\$6,173	
6	State Tax	\$546	
7	Federal Taxable Income		\$5,627
8	Federal Income Tax		\$844
9	Total Income Tax (State plus Federal)		\$1,390

California Corporate Franchise Tax Rate: 8.84%

Federal Corporate Income Tax Rates:

Taxable Income Over:	Not Over:	Tax Rate:
\$0	\$50,000	15%
\$50,000	\$75,000	25%
\$75,000	\$100,000	34%
\$100,000	\$335,000	39%

(END OF APPENDIX D)

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W- 4986 on all parties in these filings or their attorneys as shown on the attached lists.

Dated June 2, 2014 at San Francisco, California.

/s/ DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**LAS FLORES WATER WORKS
ADVICE LETTER 38
SERVICE LIST**

Madden Creek Water Company
Post Office Box 264
Tahoma, CA 96142

Tahoe Park Water Company
Post Office Box 5627
Tahoe City, CA 96145

Tahoe City Public Utilities District
Post Office Box 5309
Tahoe City, CA 96145

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