

PROPOSED RESOLUTION

Resolution W-5001
DWA/RSK/BMD/ds4

AGENDA ID #13214

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5001
August 28, 2014

RESOLUTION

**(RES. W-5001) BLACK BUTTE WATER COMPANY, INC.
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUE OF
\$11,747, or 57.3%, IN TEST YEAR 2014 AND AMORTIZATION
OF THE CONTRACT WORK MEMORANDUM ACCOUNT
IN THE AMOUNT OF \$25,197.**

SUMMARY

By Advice Letter (AL) No. 15-W, filed on February 5, 2013, Black Butte Water Company (Black Butte) seeks an increase in its rates for water service to recover increased operating expenses, and requests authorization to amortize the balance in its Contract Work Memorandum Account.

For Test Year (TY) 2014, this resolution grants Black Butte an increase in gross annual revenues of \$11,747, or 57.3%, which is estimated to provide a return on margin of 21.69%, and authorizes the amortization of the balance of \$25,197 in the Contract Work Memorandum Account through a monthly surcharge, over a three year period.

BACKGROUND

Black Butte is a Class D water utility that has requested authority under General Order 96-B, General Rule 7.6.2, Water Industry Rule 7.3.3(5), and Public Utilities Code Section No. 454 to increase its water rates by \$11,905, or 68.5% for TY 2013 to produce a return on margin of 24%. Black Butte also requested authority to recover the balance in its Contract Work Memorandum Account of \$14,198 for the years 2009 through 2011.

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The last general rate increase was granted on September 10, 2009, pursuant to Resolution (Res.) No. W-4783, which authorized a rate increase of \$4,291, or 21.7%, resulting in a rate of margin of 24% for TY 2009. The present rates became effective on February 29, 2012, pursuant to the approval of AL 13-W, which granted a Consumer Price Index (CPI) adjustment of 3.0%.

Black Butte is a Class D water utility serving approximately 85 metered customers in a service area one mile east of Orland, California, in Glenn County. The system is served by one well, a 5,000-gallon hydro pneumatic pressure tank, and an emergency diesel backup engine in case of electrical failure. There are over 1,600 feet of mains of unknown size, and six hydrants. The service area is level, and all of Black Butte's customers are residential, with no commercial, industrial or public use services.

Black Butte was constructed by developers in 1966 to provide water to a housing tract. It was awarded a Certificate of Public Convenience and Necessity by Decision (D.) No. 70863 on June 14, 1966. In 1969 it was sold to a corporation. In 1975, Black Butte was granted its first rate increase, a 100% increase, by Res. W-1830. On October 23, 1979, D.90932 authorized the sale of the company to John E. Foley and Charles E. Harris, purchasers (not incorporated).

Mr. Harris operated the company by himself from 1979 until his death in August 2009. Black Butte is now jointly owned by Mr. Harris' daughters: Ms. Leslie Black and Ms. Karla Bambauer.

NOTICE AND PROTESTS

Black Butte sent a notice, dated February 15, 2013, of the proposed rate increase and memorandum account amortization to all of its customers. The Division of Water and Audits (Division) received no responses or protests in response to the notice.

DISCUSSION

The Division made an independent analysis of Black Butte's rate increase request. Appendix A shows Black Butte's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in Black Butte's and the Division's estimates in operating revenues, expenses, and rate base. Black Butte was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's findings.

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Division staff reviewed operating revenues and expenses including 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. Division staff reviewed plant accounts from those last adopted by Res. W-4783 and updated these accounts to reflect plant additions, retirements and depreciation to make its TY estimate.

As 2013 has elapsed, this resolution grants Black Butte a 2014 TY by escalating Division estimated 2013 expenses by factors provided by the Office of Ratepayer Advocates (ORA) in their memorandum dated June 17, 2014. The ratebase and the adopted quantities contained in Appendix D are also updated to reflect TY 2014. Lastly, the Contract Work Memorandum Account balance has been brought forward through the end of 2013.

Res. W-4467, dated April 22, 2004, authorized all Class C and D water and sewer utilities to establish memorandum accounts to track unanticipated changes, beyond the utility's control in payroll, payroll taxes, and that portion of contract work that is for operation and maintenance of the plant facilities. The recovery of expenses booked to these memorandum accounts may be requested by AL at any time or may be considered for recovery in the utility's general rate case. In the last general rate increase granted by Res. W-4783, Black Butte was not authorized any dollars for the Contract Work expense category. This was due to the fact that the company owner, Mr. Harris, performed all of the work himself which fell under this category, and he did not charge the utility for his own services. After he passed away in 2009, the utility started to incur Contract Work expenses and booked these expenses to a Contract Work Memorandum Account in accordance with Res. W-4467.

The Division has reviewed the expenses booked to the memorandum account and finds them reasonable. Because 2013 has elapsed, the Division recommends that Black Butte recover the balance of the memorandum account through the end of 2013. For TY 2014, the Division has included contract work expenses that it believes will meet the needs of the utility and will eliminate the need for the utility to book any additional expenses to the Contract Work Memorandum Account.

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In D.92-03-093, effective April 30, 1992, the Commission adopted the operating ratio method of ratemaking as an alternative to the rate of return method on rate base for Class C and D utilities. Ordering Paragraph 8 of D.92-03-092 states:

Division is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission the rate method that produces the higher results.

Black Butte is a Class D water utility. The Division has conducted an analysis of the financial market changes with the last year and the high operational risks faced by Class D water companies and has determined that the appropriate range for Return on Equity (ROE) is 10.8% - 11.8% and a Return of Margin of 21.69%.

Using the rate of margin method with a return on margin of 21.69%, Division's estimate of Black Butte's revenue requirement is \$32,252. Using an ROE of 11.8%, the Division estimates a revenue requirement of \$28,576. The Division recommends the rate of margin method since it produces the higher revenue requirements.

Black Butte's current rate structure consists of one rate schedule – Schedule No. 1, General Metered Service. At the present time, Black Butte has 85 metered rate customers who are billed monthly. At the Division's recommended rates for metered service, as shown in Appendix C, the average monthly bill for a 5/8 x 3/4 inch meter will increase from \$11.23 to \$18.45, or 64%. In addition, all customers will be subject to a monthly surcharge of \$8.23 to recover the balance of the Contract Work Memorandum Account for a three year period. The adopted quantities and tax calculations are shown in Appendix D.

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COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the Department of Public Health, the utility currently meets all applicable water quality standards.

COMMENTS

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

FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits is reasonable and should be adopted.
2. The rates (Appendix B) recommended by the Division of Water and Audits are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Division of Water and Audits 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 Public Utilities Code Section 311(g)(3).

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THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Black Butte Water Company to file a supplement to Advice Letter 15-W to incorporate the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.

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 August 28, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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APPENDIX A Black Butte Water Company Summary of Earnings Test Year 2014

<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Adopted</u> <u>Rates</u>
	<u>Present</u> <u>Rates</u>	<u>Requested</u> <u>Rates</u>	<u>Present</u> <u>Rates</u>	<u>Requested</u> <u>Rates</u>	
<u>Operating Revenue</u>					
Metered Water Sales	\$ 20,505	\$ 29,290	\$ 20,505	\$ 29,290	\$ 32,252
Total Revenues	\$ 20,505	\$ 29,290	\$ 20,505	\$ 29,290	\$ 32,252
<u>Operating Expenses</u>					
Purchased Water					
Purchased Power	\$5,961	\$5,961	\$6,893	\$6,893	\$6,893
Other Volume Related Expenses					
Employee Labor					
Materials					
Contract Work	\$4,973	\$4,973	\$5,115	\$5,115	\$5,115
Transportation Expenses					
Other Plant Maintenance	\$1,526	\$1,526	\$1,550	\$1,550	\$1,550
Office Salaries	\$1,200	\$1,200	\$1,218	\$1,218	\$1,218
Management Salaries	\$2,400	\$2,400	\$2,436	\$2,436	\$2,436
Employee Benefits					
Uncollectibles Expense					
Office Services & Rentals	\$240	\$240	\$244	\$244	\$244
Office Supplies & Expenses	\$941	\$941	\$1,186	\$1,186	\$1,186
Professional Services	\$118	\$118	\$508	\$508	\$508
Insurance	\$1,500	\$1,500	\$1,980	\$1,980	\$1,980
Regulatory Commission Expense	\$1,400	\$1,400	\$1,000	\$1,000	\$1,000
General Expenses	\$1,241	\$1,241	\$1,261	\$1,261	\$1,261
Subtotal	\$ 21,500	\$ 21,500	\$ 23,390	\$ 23,390	\$ 23,390
Depreciation	\$ 834	\$ 834	\$ 834	\$ 834	\$ 834
Taxes other than Income	\$ 297	\$ 297	\$ 1,046	\$ 1,046	\$ 1,046
Income Taxes	\$ 800	\$ 1,227	\$ 800	\$ 1,283	\$ 1,727
Interest					
Total Deductions	\$23,431	\$23,858	\$26,070	\$26,553	\$26,997
Net Revenue	-\$2,926	\$5,432	-\$5,565	\$2,737	\$5,255
<u>Rate Base</u>					
Average Plant	\$ 37,092	\$ 37,092	\$ 37,092	\$ 37,092	\$ 37,092
Ave. Accumulated Depreciation	\$ 17,373	\$ 17,373	\$ 19,041	\$ 19,041	\$ 19,041
Net Plant	\$ 19,719	\$ 19,719	\$ 18,051	\$ 18,051	\$ 18,051
<u>Less</u> Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Plus</u> Working Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Materials & Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
Rate Base:	\$ 19,719	\$ 19,719	\$ 18,051	\$ 18,051	\$ 18,051
Return on Margin	-18.09%	24.00%	-30.83%	9.65%	21.69%

(END OF APPENDIX A)

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APPENDIX B

BLACK BUTTE WATER COMPANY

Schedule No. 1 GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on a monthly basis.

TERRITORY

The area known as Black Butte Estates Subdivision Unit No. 1 and vicinity, located approximately 1-1/2 miles northwesterly of Orland, Glenn County.

RATES

Quantity Rate:

All water, per 100 cu. ft.	\$0.78	(I)
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Service Charge:

	Per Meter	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$10.65	(I)
For 3/4-inch meter	\$15.97	(I)
For 1-inch meter	\$26.61	(I)
For 1-1/2-inch meter	\$53.23	(I)
For 2-inch meter	\$85.16	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge for water computed at the quantity rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. All bills are subject to a monthly surcharge of \$8.23 to recover the balance of the Contract Work Memorandum Account, accrued from 2009 through 2013, for a period of three years from the effective date of this tariff sheet. (N)
(N)
(N)
(N)

(END OF APPENDIX B)

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APPENDIX C

BLACK BUTTE WATER COMPANY

COMPARISON OF RATES

	<u>Previous Rate</u>	<u>New Rate</u>	<u>Percent Increase</u>
Metered Water:			
For 5/ 8 x 3/ 4-inch meter	\$6.33	\$ 10.65	40%
For 3/ 4-inch meter	\$9.51	\$ 15.97	40%
For 1-inch meter	\$15.84	\$26.61	40%
For 1-1/ 2-inch meter	\$31.67	\$53.23	40%
For 2-inch meter	\$50.68	\$85.61	40%
Water, per hundred cu. ft.	\$0.49	\$0.78	37%

	<u>Usage (ccf)</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>\$ Increase</u>
Bill Comparison:				
5/ 8 x 3/ 4-inch meter	0	\$6.33	\$10.65	\$4.32
	5	\$8.78	\$14.55	\$5.77
avg	10	\$11.23	\$18.45	\$7.22
	15	\$13.68	\$22.35	\$8.67
	20	\$16.13	\$26.25	\$10.12

(END OF APPENDIX C)

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APPENDIX D

BLACK BUTTE WATER COMPANY

ADOPTED QUANTITIES Test Year 2014

Property Tax	\$ 1,046
Purchased Power (Electric)	
Vendor	Pacific Gas & Electric
Schedule	A-1
Total Purchased Power	\$6,893
Metered Service Connections	
5/ 8 x 3/4 inch	80
1 inch	<u>5</u>
	85
Rate Design; Fixed Costs in Service Charge	50%
Metered Water Sales	26,194 ccf
Income Tax Calculations	
Operating Revenue	\$ 32,252
Operating Expenses	23,390
Depreciation	834
Other Than Income Taxes	1,046
Income before State Tax	6,982
State Income Tax	800
Income before FIT	6,182
Federal Income Tax	927
Total Income Taxes	1,727

(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- 5001 on all parties in these filings or their attorneys as shown on the attached lists.

Dated August 18, 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.

**BLACK BUTTE WATER COMPANY
ADVICE LETTER NO. 15-W
SERVICE LIST**

Glenn County
516 West Sycamore St.
Willows, CA 95988

Orland Chamber
401 Walker Street
Orland, CA 95963

City of Orland
815 4th Street
Orland, CA 95963

Black Butte Water Co.
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