

PROPOSED RESOLUTION

Resolution W-5031
DWA

AGENDA ID #13790 (Rev. 1)
ITEM #8

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5031
April 9, 2015

RESOLUTION

**(RES. W-5031) AGATE BAY WATER COMPANY ORDER
AUTHORIZING A GENERAL REVENUE INCREASE,
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$7,157,
OR 2.00%, FOR TEST YEAR 2014.**

SUMMARY

By Advice Letter (AL) 37-W, filed on May 13, 2014, Agate Bay Water Company (ABWC) seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on plant investment.

For test year (TY) 2014, this resolution grants an increase in gross annual revenues of \$7,157 or 2.00%, over current rates, which is estimated to provide a Rate of Margin (ROM) of 20.54%.

BACKGROUND

ABWC, a Class C water utility, has requested authority under Rule 7.6.2 of General Order 96-B, Water Industry Rule 7.3.3 (5), and Section 454 of the Public Utilities Code to increase its water rates by \$ 43,438 or 12.15% for TY 2014. The present rates became effective on April 14, 2014, by approval of AL 36-W, which authorized an interim increase of \$5,363 or 1.5%, subject to refund or increase to the rates established in this general rate case (GRC). The last GRC for ABWC was approved on November 19, 2010, pursuant to Resolution W-4850 which authorized an increase in revenues of \$30,777 or 9.57%.

ABWC presently provides service to 595 flat rate service connections, 41 public fire hydrants, and seven private fire connections in Agate Bay View and Agate Bay Shore Subdivisions and vicinity, located on the north shore of Lake Tahoe, Placer County. The ABWC system is supplied from a spring and from Lake Tahoe. The capacity of the spring is approximately 175-225 gallons per minute (gpm) and the treatment plant can process lake water at 200 gpm. Water is stored from the two sources in a spring tank and a lake tank. The spring tank has a capacity of 50,000 gallons and the lake tank has a

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

capacity 300,000 gallons. ABWC's distribution system consists of 50,613 feet of mains ranging from 1 1/2 - inch to 8-inch.

NOTICE AND PROTEST

On September 5, 2014, a notice of the proposed rate increase and a public meeting to be held on September 23, 2014, to explain the GRC process and to hear from customers was mailed to each customer and the service list. Five customer letters were received and ABWC responded to each customer letter. The Division of Water and Audits (Division) has considered all the comments, and the draft resolution was sent to everyone who sent written comments and the service list.

The written comments addressed the need for metering, a perceived inequity in requiring full-time service charges to part-time residents, and objection to the size of the increase. The company responded to the letters stating that it is in the process of installing a metering program to comply with Public Utilities Code 781 Section (a) (1), to install meters before 2025, that most of the utility's expenses are year round regardless of whether customers are present and listed several expense areas that have increased such as installing new mains and rebuilding the filter plant in addition to preparations to install meters before 2025.

An informal meeting was held on Tuesday, September 23, 2014, at 7:00 PM at the North Tahoe Conference Center located in nearby Kings Beach, California. Two customers attended the meeting. Division staff explained the Commission procedure, while ABWC's representative cited justification for the proposed increase. Customers expressed concern to the magnitude of the proposed rate increase. In setting rates in this resolution, the Division has balanced the financial requirements of ABWC with the rate concerns of the customers.

DISCUSSION

The Division made an independent analysis of ABWC's operations. Appendix A shows ABWC's and the Division's estimated summary of earnings at present, proposed, and recommended rates for Test Year 2014. Appendix A also shows differences in ABWC's and the Division's estimates in expenses and rate base. Appendix B shows the Division's recommended rates for test year 2014. ABWC agrees with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increases shown in Appendix A and the resulting rates shown in Appendix B.

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

ABWC is required by Public Utilities Code 781 Section (a) (1), to install a meter upon each unmetered service connection by January 1, 2025. ABWC plans to install approximately 50 meter pits and setters¹ each year for eight to ten years until all connections are prepared to receive meters. This long range approach will allow the utility to save money by utilizing its staff for some installation work and to avoid the need for long term debt. By waiting until all the pits and setters are in place, ABWC can purchase all meters of the same design and install them in one season². Furthermore, ABWC will be able to begin billing on a metered basis for all customers at the same time³ thereby avoiding any claims of unfairness.

Division staff conducted a field inspection on September 23 and 24, 2014, of ABWC's water system. Division staff used the plant additions in the revised annual reports for the years 2011, 2012 and 2013 and recorded plant additions for 2014 to develop plant additions for the 2014 test year. The Division staff used the 2014 recorded expenses for power costs, insurance and regulatory rate case expenses amortized over three years for consultant (\$4,500) and auditor (\$15,670) in addition to normal expenses of the California Water Board small system operating fees (\$3,480) for Regulatory Commission Expense. Employee labor, office salaries and management salaries were based on the data in the 2011, 2013 and 2013 revised annual reports. For other expense categories, the Division staff escalated and averaged the expenses in the revised annual reports utilizing the Consumer Price Indexes provided by the Division.

In Decision (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 on rate base for Class C and Class D Utilities. The operating ratio method calculates a margin over operating and maintenance expenses, rather than focusing a return on net investment. 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.

ABWC is a Class C water utility. The Division has conducted an analysis of the financial market changes with the last year and the high operational risks for Class C water companies and has determined that the appropriate range for Rate of Return is 10.20%-11.2% and a Return on Margin of 20.54%.

¹ Meter pits and setters provide for later installation of meters.

² Because of harsh winter weather in the Lake Tahoe area, outside work is usually planned for the period from April 15 to October 15.

³ PU Code 781, Section (b)(1) requires that, beginning January 1, 2015, utilities must bill customers on a volumetric basis if a meter has been installed.

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

The current recommended range for rate of return for a Class C utility is 10.2% to 11.2%. The Division has shown the revenue requirements at an 11.2% rate of return, at the present rates, the requested rates and the recommended rates.

Using the rate of margin method with a Return on Margin of 20.54%, Division's estimate of ABWC's revenue requirement is \$382,690. Using a Rate of Return of 11.2%, the Division estimates a revenue requirement of \$377,311. The Division recommends the rate of margin method because it produces the higher revenue requirement. ABWC's rate structure consists of four rate schedules: 1, General Metered Service; 2A, Annual Flat Rate Service; 2AL, Limited Annual Flat Rate Service; and 4, Fire Protection Service. Currently no customers receive service under the metered tariff. ABWC plans to move to metering in compliance with Public Utilities Code 781.

The Division and ABWC used an equal percentage increase for each of the rate schedules. The Division used a 2.00% increase for its recommended rates in Appendix B. At the Division's recommended rates, the increase in revenue will be \$7,517 or 2.00 % for test year 2014.

At the Division's recommended rates, flat rate service for a 3/4 - inch annual flat rate residential customer bill will increase from \$620.5 to \$632.91, an increase of \$12.41 or 2.00%.

ABWC should be authorized to file a Tier 1 advice letter within 30 days from the effective date of this resolution to collect over a twelve-month period the under-collected revenues from the interim rate date to the effective date of the new rates.

SAFETY AND COMPLIANCE

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

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

COMMENTS

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to a 30-day period for public review. Accordingly, this draft resolution was mailed on March 6, 2015, to all parties and interested persons.

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. ABWC should be authorized to file an advice letter within 30 days from the effective date of this Resolution to collect over a 12-month period the under-collected revenues from the interim rate date to the effective date of the new rates.

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Agate Bay Water Company, to file a supplemental advice letter with the revised rate schedule sheets attached to this resolution as Appendix B, and to concurrently replace the revised rate schedule sheets in Appendix B to its presently effective Schedule No. 1, General Metered Service; Schedule No. 2A, Annual Flat Rate Service; Schedule No. 2AL, Limited Annual Flat Rate Service; and Schedule No. 4, Private Fire Protection Service. The effective date of the revised tariff sheets in Appendix B shall be five days after the date of filing.
2. Agate Bay Water Company is authorized to file an advice letter within 30 days from the effective date of this Resolution to collect, over a 12-month period, the under-collected revenues from the interim rate date to the effective date of the new rates.

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 on April 9, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

APPENDIX A AGATE BAY WATER COMPANY SUMMARY OF EARNINGS TEST YEAR 2014

Item	Utility Estimated		Branch Estimated		
	Present Rates	Requested Rates	Present Rates	Rate of Return Rates	Recommended Rates
Operating Revenue					
Flat Rates	372,775	411,890	372,775	374,845	380,224
Metered Water Sales					
Fire Protection	2,398	2650	2,398	2,466	2466
Total Revenues	375,173	414,540	375,173	377,311	382,690
Operating Expenses					
Purchased Water	0	0	0	0	0
Purchased Power	23,817	23,817	19,500	19,500	19,500
Other Volume Related Expenses	9001	9001	8,418	8,418	8,418
Employee Labor	38,739	38,739	31,000	31000	31,000
Materials	11,711	11,711	3,233	3,233	3,233
Contract Work	32,805	32,805	27,194	27,194	27,194
Transportation Expense	10,837	10,837	12,035	12,035	12,035
Other Plant Maintenance	3,146	3,146	13,029	13,029	13,029
Office Salaries	12,570	12,570	11,750	11,750	11,750
Management Salaries	23,045	23,045	20,000	20,000	20,000
Employee Benefits	4,086	4,086	7,619	7,619	7,619
Uncollectible Expense	0	0	0	0	0
Office Services and Rentals	13,449	13,449	30,376	30,376	30,376
Office Supplies and Expenses	19,728	19,728	3,130	3,130	3,130
Professional Services	7,475	7,475	7,363	7,363	7,363
Insurance	22,000	22,000	11,750	11,750	11,750
Regulatory Commission Expense	3,676	3,676	10,203	10,203	10,203
General Expenses	3,005	3005	2,048	2,048	2,048
Subtotal	239,090	239,090	218,649	218,649	218,649
Depreciation	36,861	36,861	35,284	35,284	35,284
Taxes other than Income	12,153	12,153	11,736	11,736	11736
Income Taxes	22,934	39,378	31,870	32,811	35198
Total Deductions	311,037	327,482	297,539	298,480	300,868
Net Revenue	64,136	87,058	77,634	\$78,831	81,822
Rate Base					
Average Plant	1,460,320	1,460,320	1,317,332	1,317,332	1,317,332
Ave. Accumulated Depreciation	605,395	605,395	619,172	619,172	619,172
Net Plant	854,925	854,925	698,160	698160	698,160
<u>Less</u> Contributions	84,602	84,602	0	0	0
<u>Plus</u> Working Cash	0	0	0	0	0
Materials and Supplies	5,926	5,926	5,926	5,926	5,926
Rate Base	776,249	776,249	704,086	704086	704,086
Rate of Return					
	8.26%	11.22%	11.03%	11.20%	
Rate of Margin					
					20.54%

(END OF APPENDIX A)

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

APPENDIX B

AGATE BAY WATER COMPANY, INC. SCHEDULE NO. 1 GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Quantity Rate	Per Meter Per Month	
Per 100 cu. Ft.	\$ 1.71	(I)
Service Charge:		
For 3/4-inch meters	\$ 30.81	(I)
For 1-inch meters	\$ 51.37	
For 1-1/2-inch meters	\$ 102.72	
For 2-inch meters	\$ 164.36	(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.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(CONTINUED)

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

APPENDIX B

AGATE BAY WATER COMPANY, INC. SCHEDULE NO. 2A ANNUAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Annual Flat Rate

For a single-family residential unit, including premises.
for residential use, payable in advance on or before
January 1 of each year

Served through a	3/4-inch service connection	\$632.93	(I)
For	1-inch service connection	\$732.92	
For	1 1/4 inch service connection	\$773.70	
For	1 1/2 inch service connection	\$814.60	
	2-inch service connection	\$901.00	(I)

(I)

For each additional single-family residential Unit on the same premises and served from the same service connection	\$439.73	(I)
---	----------	-----

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General 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 metered charge for the same period shall be made on or about that same day.

(CONTINUED)

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

APPENDIX B

AGATE BAY WATER COMPANY, INC.
SCHEDULE NO. 2AL
LIMITED ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to flat rate service only to the Sun Club furnished on an annual basis.

TERRITORY

This schedule is applicable within the entire territory served by the utility. (T)

RATES

Annual Flat Rate

Recreation Private Club use, five services plus one swimming pool,
payable in advance on or before January 1 of each year \$1,945.85 (I)

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1. Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period of time 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 about the same.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(CONTINUED)

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

APPENDIX B

Agate Bay Water Company, Inc.
SCHEDULE NO. 4
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to water service furnished for private fire protection systems and to private fire hydrants.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

	<u>Per Service Connection Per Month</u>
For each inch of diameter of service connections	\$ 12.94 (I)

SPECIAL CONDITIONS

1. The facilities for service connection to a privately-owned fire protection system will be installed by the utility or under the utility's direction and the cost paid by the applicant. Such cost will not be subject to refund. The facilities paid for will be the sole property of the applicant.
2. The minimum diameter for the private service connection will be 4 inches. A customer who has a private fire protection service connection less than the minimum 4 inches is exempt from the minimum diameter size of 4 inches if the installation has been approved by the local fire department. The maximum diameter will not be larger than the diameter of the water main to which the service is connected.
3. If a main of adequate size to serve a private fire protection system in addition to all other normal service does not exist adjacent to the premises to be served, then a new main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. The main where located in the public right-of-way or utility easement will be the sole property of the utility.

(END OF APPENDIX B)

PROPOSED RESOLUTION

Resolution W-5031
DWA

April 9, 2015 (Rev. 1)

APPENDIX C

AGATE BAY WATER COMPANY ADOPTED QUANTITIES Test Year 2014

Property Tax	\$	2,984
Purchased Power (Electric)		
Vendor		Liberty Utilities
Total Purchased Power	\$	19,500
Flat Rate Connections		
3/4 inch		584
1 inch		6
1 1/4 inch		2
1 1/2 inch		2
Each Additional Single-Family Residential Unit on the Same Premises Served from the Same Service Connection		16
Annual Flat Rate		1
Private Fire Protection Service		7 (189 inches)

Rate Design;
All rates increased by 2.00 percent

Income Tax Calculations		
Operating Revenue	\$	382,690
Operating Expenses		218,649
Depreciation		35,284
Other Than Income Taxes		11,736
Income before State Tax		117,020
State Income Tax		10,345
Income before FIT		106,675
Federal Income Tax		24,854
Total Income Taxes		81,821

(END OF APPENDIX C)

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-5031 on all parties in these filings or their attorneys as shown on the attached lists.

Dated March 6, 2015, at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Third 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.

**AGATE BAY WATER COMPANY
ADVICE LETTER NO. 37-W
SERVICE LIST**

North Tahoe Public Utilities District

P.O. Box 139

Tahoe Vista, CA 96148

Fulton Water Company

P.O. Box 1709

Carnelian Bay, CA 96140