

PROPOSED RESOLUTION

Resolution W-5050
DWA

AGENDA ID #14085 (Rev. 1)
ITEM #20

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5050
July 23, 2015

RESOLUTION

**(RES. W-5050) TWIN VALLEY WATER COMPANY, INC. ORDER
AUTHORIZING A GENERAL RATE CASE INCREASE,
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$103,545
OR 65.8%, FOR TEST YEAR 2014.**

SUMMARY

By Advice Letter 40, filed on June 23, 2014, Twin Valley Water Company, Inc. seeks to increase its rates for water service to meet increased operating expenses and to earn an adequate return on its plant investment. For Test Year 2014, this Resolution grants an increase in gross annual revenues of \$103,545 or 65.8%, over current rates, which is estimated to provide a rate of margin of 21.69%.

This Resolution also authorizes Twin Valley Water Company, Inc. to file a Tier 2 rate base offset advice letter, before its next GRC, for the Redwood Tank Replacement Project once the project is used and useful and a permit amendment for the project has been obtained from the State Water Resources Control Board, Division of Drinking Water.

BACKGROUND

Twin Valley Water Company, Inc. (Twin Valley) is a Class D water utility serving 92 metered customers, in an unincorporated area approximately one mile west of Morgan Hill in Santa Clara County.

By Advice Letter (AL) 40, Twin Valley has requested authority under Rule 7.6.2 of General Order (G.O.) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$175,566, or 105%, for Test Year (TY) 2014, over the current interim rates. The primary purpose of the rate increase request is to cover operating expenses and provide an adequate rate of return on plant investment. Twin Valley's request was based on a rate of return of 11.80%.

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The present interim rates became effective by AL 39, filed on June 23, 2014. Twin Valley's last General Rate Case (GRC) became effective pursuant to Decision 95-08-011, which granted a Test Year 1995 increase in revenues of \$58,468 based on a rate of return of 13.60%. Twin Valley has filed fifteen Consumer Price Index (CPI) increases in the twenty years since the last GRC. It has also filed six advice letters to recover water testing expenses.

NOTICE AND PROTEST

AL 40 was filed with the Division of Water and Audits (Division) on June 23, 2014. AL 39, requesting an interim increase was filed the same day. AL 39 was approved by staff and rates became effective June 23, 2014.

On February 5, 2015, a notice of the proposed rate increase and public meeting was mailed to each customer and to the general service list. Six customer letters protesting the rate increase were timely received. The utility stated that it only received two of the letters and provided its responses to Division staff.

Division reviewed the letters and responses and believes the utility made a complete response to the issues raised in the protest letters.

Division staff toured the service area and inspected the utility facilities on the afternoon of February 25, 2015. At Division staff's request, the assigned staff for the utility from the State Water Resources Control Board, Division of Drinking Water (Drinking Water), also participated in the inspection. The utility's consultant and the consultant's wife were also there.

An informal public meeting was held February 25, 2015 at 6:30 PM at the Marie Callender's Restaurant in Morgan Hill. The meeting was attended by approximately 35 people.

There were concerns expressed in both letters and at the meeting about a nearby golf course and its impact on groundwater supply. As was noted at the meeting, the Commission has no jurisdiction over the groundwater pumping of such an entity.

Staff noted that most customers who commented were concerned about safe, reliable service. They complained that the proposed 106.5% increase was not fair considering

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surrounding water rates or the rate of inflation, but none said affordability was an issue. Some customers complained that the utility was unresponsive to their concerns. The utility stated that it held monthly meetings¹ and that all customers were welcome to attend. One customer stated that his father had contributed plant when the current owner's father was the owner. For ratemaking purposes, the Division has assumed this plant to be fully depreciated. One customer stated that she would have drilled her own well except that the utility had misled her into believing that this was not allowed². The utility did not respond. Customers complained that there were frequent service interruptions, losses of pressure, or low pressure. The utility stated that adequate rates would allow it to make much needed plant improvements.

In setting rates in this resolution, we have balanced the financial requirements of Twin Valley with the rate concerns of its customers.

One letter was received late and was not considered. The letter had twelve customer signatures representing eleven service connections. The Division has added the originator of the letter to the service list for the Comment Resolution.

DISCUSSION

The Division made an independent analysis of Twin Valley's operations. Appendix A shows Twin Valley's and the Division's estimated summary of earnings at present and proposed rates for TY 2014 and Appendix B the Division's recommended rates for TY 2014. The Division informed Twin Valley of how the methodologies and escalation rates it used differed from those used in Twin Valley's request. Twin Valley provided additional documentation, and as a result, the Division revised its estimate of seven line items. Twin Valley is now in agreement with the Division's recommended revenue requirement, shown in Appendix A, with the exception of the estimates for office rent and depreciation. Differences in the contested items are explained below. Twin Valley did not contest the Division's proposed rate design.

¹Staff noted that the utility's 2013 Consumer Confidence Report (CCR) contained an invitation to monthly meetings. The CCR is the utility's annual report to the customers regarding water quality issues. The utility is required by Title 22, Section 64483 statute to provide copies to its customers, Drinking Water and to the Commission. The Commission makes these available on the Commission website for small water utilities. The 2014 CCR is due July 1, 2015.

² At least ten customers also have their own wells.

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Operating Expenses

The Division's estimate of Twin Valley's operating expenses is based on data from years 2011-2013 (data years). The Division reviewed expenses including purchased power, employee labor, materials, contract work, water testing, transportation, other plant maintenance, uncollectibles, office supplies and expenses, professional services, insurance, general expenses, and taxes other than income. These expenses were averaged over the data years and then escalated to 2014 dollars. The Division believes these expenses are reasonable.

Twin Valley originally requested \$26,000 per year for office rent stating that this is what it would cost for the utility to rent a separate office in the area. Twin Valley currently operates from a shared home office space. In response to staff's initial proposal, Twin Valley updated its estimate; however, this estimate was also based on obtaining a separate office. Staff's analysis shows that Twin Valley has had little growth or other changes to its operations that might require a separate office. Therefore, staff does not agree that new office space is necessary. Furthermore, the owner of the utility operates a computer software company in the same office space attached to his home. The office space would accommodate six or more desks and only a portion of two desks are needed for the water company. The Division has made its estimate based on 160 square feet of office space, using Twin Valley's market rent examples. Division accepted Twin Valley's estimate on the office utilities, and the existing remote storage space rented by the utility. The Division therefore recommends \$9,060 per year for the line item office services and rentals.

Twin Valley initially requested \$17,597 for depreciation. Twin Valley provided a revised estimate based on the Division's plant numbers mentioned below, but failed to exclude the Safe Drinking Water Bond Act (SDWBA) funded plant and non-depreciable plant. The Division corrected this amount to arrive at its estimate of \$12,196 for depreciation.

Rate Base

The Division audited the plant accounts and found that the over \$240,000 in SDWBA improvements were added to the utility plant in service (UPIS) in 2004 as well as during the 1990s when the improvements were actually made. The utility's consultant stated that he relied on the 2002 UPIS as a baseline and added improvements based on statements made by Twin Valley. Division corrected this UPIS error and made other

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more minor adjustments to arrive at the value used for TY 2014 Rate Base as shown in Appendix A. As noted above, Twin Valley has seen and agreed to the Division's rate base figures.

Rate of Margin

Twin Valley requested an 11.80% rate of return. The current range recommended for rate of return for a Class D utility is 10.80% to 11.80%³, and the Division based its analysis on 11.30%, the midpoint of the range. In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the Return on Margin (ROM) ratemaking as an alternate to the Return on Net Investment (Rate Base) method for calculating net revenue for Class C and Class D Utilities and required the Division to recommend the method that produces the higher net revenue result. The Division found that using the 21.34% rate of margin currently allowed⁴ for a Class D utility would produce more net revenue than the rate of return on rate base method. Therefore, the Division recommends using the 21.34% rate of margin to calculate the proposed revenues.

Rate Design

Twin Valley's rate structure consists of one schedule: Schedule No. 1, General Metered Service. The rates requested by Twin Valley were developed by inflating existing rates by the requested increase in revenues. Twin Valley has not requested a change in the current rate design. The Division is in agreement with this methodology for revenue requirement recovery.

At the Division's recommended rates shown in Appendix B, metered rates for a customer with the smallest (3/4 inch) meter and average consumption will increase from \$130.29 to \$216.27, a difference of \$85.98 or 66.0%. Metered rates for a customer with a one inch meter and average consumption will increase from \$144.17 to \$239.31, a difference of \$95.14 or 66.0%. 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.

³ This recommendation is set forth in a March 12, 2015 memorandum to the Commission entitled Rates of Return and Rates of Margin for Class C and Class D Water Utilities (March 12, 2015 Memorandum).

⁴ See the March 12, 2015 Memorandum.

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Interim Recovery

The interim increase, subject to refund or increase to the rates set herein, was requested by AL 39 and became effective on June 23, 2014. Since this resolution authorizes a substantial increase, the Division recommends that the shortfall in revenue between the interim and final rate be recovered over a 36-month period. Twin Valley should be allowed to file a Tier 2 AL within thirty days of the effective date of this Resolution to collect the under-collected revenues from June 23, 2014, the interim rate date, to the effective date of the new rates established in this Resolution. This AL should become effective upon approval by the Division.

COMPLIANCE AND SAFETY

Redwood Tank Replacement Project

Twin Valley's water storage capacity consists of two tanks, one being a 30,000 gallon redwood tank and the other being a 60,000 gallon steel tank. Both tanks were described in the Drinking Water's July 28, 2009 sanitary survey findings and again in the December 6, 2012 sanitary survey findings as well past the end of their useful life. To date, neither tank has been replaced. The redwood tank (tank) is of a greater safety and reliability concern compared to the steel tank. Its capacity is approximately 30,000 gallons, which is one third of the storage capacity of the system. It is also at a critical point in the distribution system, and its failure would cause a service interruption to approximately 70 of Twin Valley's 92 service connections. In 2009, the District Engineer for the Department of Health Services stated in the aforementioned sanitary survey findings that without replacement of this redwood tank, Twin Valley "risks putting most of its customers out of water for an extended period of time, and possible direct risk to a downhill customer due to catastrophic failure."

Twin Valley has estimated the total cost for the Redwood Tank Replacement Project at \$90,000. The utility stated that it had tried since 2008 to obtain a SDWBA loan, but learned in April 2013 that funding would be unavailable. Drinking Water has stated that new funding has become available, but that there are many projects statewide that will be competing for this new funding. The Division believes that the utility should fund replacement of the tank on its own as soon as possible. Replacing the tank during winter months when demand is lowest is advisable since storage at that location is critical to the system. The project would include installation of temporary storage

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adjacent to the tank at the site, demolition of the existing tank, and installing a new tank.

The Division believes the Redwood Tank Replacement Project is necessary and recommends that Twin Valley be allowed to file a Tier 2 rate base offset advice letter, before its next GRC, after the new tank is installed and deemed used and useful. Under General Order 96-B, Water Industry Rule 7.3.3 (8), the scope of the project and a budget cap must be pre-approved to allow Tier 2 treatment. The Division recommends the Commission approve the scope of the Redwood Tank Replacement Project, as described above, with a cap of \$90,000. Twin Valley will need a permit amendment from Drinking Water after completion of the project and should be required to obtain this permit before filing the rate base offset advice letter.

Delinquent User Fees

Twin Valley is required by State law⁵ to collect a user fee that is then paid to the Commission. Twin Valley's 2013 Annual Reports shows the Commission's user fee as an expense and sales records show that it collected the 1.5% fee in that year. The Commission's Budget and Fiscal Services Office has reported that the utility is behind on paying its user fee to the Commission. There were no payments in 2007, 2009, 2011, 2012, and 2013. Twin Valley stated that it had not been receiving bills. The 2014 fee is also overdue. This resolution orders Twin Valley to pay Commission user fees in full before implementing the recommended rates.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, a draft resolution was mailed to the utility and all protestants, and made available for public comment on June 19, 2015. Seven customer comment letters were received which repeated concerns addressed during the protest period. The Division has consider the comments and made no changes.

1. ⁵ Public Utilities Code Section 433.

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FINDINGS

1. In reviewing Twin Valley's request, the Division made an independent analysis of Twin Valley's operations.
2. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
3. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
5. For TY 2014, it is appropriate to grant Twin Valley an increase in gross annual revenues of \$103,545 or 66.0%, which is estimated to provide a rate of margin of 21.69%.
6. After the rates approved by this Resolution become effective, Twin Valley should be allowed to file a Tier 2 AL within 30 days to collect the under-collected revenues from June 23, 2014, the interim rate date, to the effective date of the new rates. This AL should become effective upon approval by the Division.
7. Twin Valley should be authorized to file a Tier 2 rate base offset advice letter, before its next GRC, for the Redwood Tank Replacement Project, subject to a \$90,000 cap, once the project is used and useful and a permit amendment from Drinking Water has been obtained.
8. Division recommends that the utility be required to pay its delinquent Commission user fees before the rates recommended herein become effective.

THEREFORE IT IS ORDERED THAT:

1. Twin Valley Water Company, Inc. shall pay its Commission user fee in full for the years 2007, 2009, 2011, 2012, 2013, and 2014 before implementing the rate increase granted herein.
2. Upon compliance with Order 1, authority is granted under Public Utilities Code Section 454 to Twin Valley Water Company, Inc. to file a supplemental advice letter with the revised rate schedule attached to this Resolution as Appendix B 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.

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3. Twin Valley Water Company, Inc. is authorized to file a Tier 2 Advice Letter within 30 days from the effective date of the rates authorized herein, to collect the under-collected revenues from June 23, 2014, the interim rate date, to the effective date of the new rates established by this Resolution. This Advice Letter shall become effective upon approval by the Division of Water and Audits.
4. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
5. Twin Valley Water Company, Inc. is authorized to file a Tier 2 rate base offset advice letter, before its next GRC, for the Redwood Tank Replacement Project, subject to a \$90,000 cap, once the project is used and useful and a permit amendment for the project has been obtained from the State Water Resources Control Board, Division of Drinking Water.
6. 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 July 23, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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APPENDIX A Twin Valley Water Company Summary of Earnings – Test Year 2014

| Item | Utility Estimated | | Branch Estimated | | Recommended Rates |
|---|-------------------|------------------|------------------|------------------|-------------------|
| | Present Rates | Requested Rates | Present Rates | Requested Rates | |
| OPERATING REVENUES | | | | | |
| Metered Rates | \$167,351 | \$345,590 | \$156,912 | \$319,315 | \$260,457 |
| Other Water Revenue | \$0 | \$0 | \$342 | \$342 | \$342 |
| Total Revenue | \$167,351 | \$345,590 | \$157,253 | \$319,657 | \$260,799 |
| OPERATING EXPENSES | | | | | |
| Purchased Power | \$48,000 | \$48,000 | \$47,929 | \$47,929 | \$47,929 |
| Other Volume Related Expenses | \$9,000 | \$9,000 | \$5,014 | \$5,014 | \$5,014 |
| Employee Labor | \$18,000 | \$18,000 | \$16,262 | \$16,262 | \$16,262 |
| Materials | \$9,500 | \$9,500 | \$9,293 | \$9,293 | \$9,293 |
| Contract Work (Excluding Water Testing) | \$19,000 | \$19,000 | \$6,298 | \$6,298 | \$6,298 |
| Water Testing | \$7,500 | \$7,500 | \$12,386 | \$12,386 | \$12,386 |
| Transportation | \$18,000 | \$18,000 | \$13,689 | \$13,689 | \$13,689 |
| Other Plant Maintenance | \$4,200 | \$4,200 | \$4,200 | \$4,200 | \$4,200 |
| Office Salaries | \$15,000 | \$15,000 | \$11,606 | \$11,606 | \$11,606 |
| Management Salaries | \$36,000 | \$36,000 | \$29,120 | \$29,120 | \$29,120 |
| Employee Benefits | \$0 | \$0 | \$0 | \$0 | \$0 |
| Uncollectibles | \$2,500 | \$2,500 | \$3,664 | \$3,664 | \$3,664 |
| Office Services & Rental | \$26,000 | \$26,000 | \$9,060 | \$9,060 | \$9,060 |
| Office Supplies and Exp | \$6,000 | \$6,000 | \$4,857 | \$4,857 | \$4,857 |
| Professional Services | \$6,500 | \$6,500 | \$5,972 | \$5,972 | \$5,972 |
| Insurance | \$4,500 | \$4,500 | \$3,670 | \$3,670 | \$3,670 |
| Regulatory Comm Exp | \$191 | \$191 | \$500 | \$500 | \$500 |
| General Expenses | \$4,000 | \$4,000 | \$2,978 | \$2,978 | \$2,978 |
| Subtotal | \$233,891 | \$233,891 | \$186,499 | \$186,499 | \$186,499 |
| Depreciation Expense | \$17,597 | \$17,597 | \$12,196 | \$12,196 | \$12,196 |
| Taxes other than income | \$12,500 | \$12,500 | \$5,067 | \$5,067 | \$5,067 |
| State Income Tax | \$800 | \$7,214 | \$800 | \$10,245 | \$5,042 |
| Federal Income Tax | \$0 | \$3,907 | \$0 | \$21,413 | \$7,799 |
| Total Deductions | \$264,788 | \$275,109 | \$204,561 | \$235,419 | \$216,603 |
| NET REVENUE | -\$97,437 | \$70,481 | -\$47,308 | \$84,238 | \$44,196 |
| RATE BASE | | | | | |
| Average Plant | \$901,115 | \$901,115 | \$676,673 | \$676,673 | \$676,673 |
| Average Depreciation Reserve | \$372,771 | \$372,771 | \$373,575 | \$373,575 | \$373,575 |
| Net Plant | \$528,344 | \$528,344 | \$303,098 | \$303,098 | \$303,098 |
| Working Cash | \$7,000 | \$7,000 | \$18,736 | \$18,736 | \$18,736 |
| Materials and Supplies | \$840 | \$840 | \$840 | \$840 | \$840 |
| SDWBA Net Plant | \$0 | \$0 | \$154,960 | \$154,960 | \$154,960 |
| Contributions | \$0 | \$0 | \$0 | \$0 | \$0 |
| Rate Base | \$536,184 | \$536,184 | \$167,714 | \$167,714 | \$167,714 |
| RATE OF MARGIN | -36.9% | 26.7% | -23.2% | 41.3% | 21.69% |

END OF APPENDIX A

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APPENDIX B Twin Valley Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Applicable to all service as shown on the Service Territory Map.

RATES

| | | | | |
|-------------------------|-------|------------------------------|-----|-------------------------------|
| Quantity Charge: | | <u>Quantity Rates</u> | (T) | |
| Per 100 Cubic Foot | | \$5.66 | (I) | |
| Service Charge: | | | | <u>SDWBA Surcharge</u> |
| For 3/4-inch meter | | \$46.46 | (I) | \$8.10 |
| For 1-inch meter | | \$69.50 | | \$13.49 |
| For 1 1/2-inch meter | | \$92.49 | | \$26.99 |
| For 2-inch meter | | \$124.13 | (I) | \$43.18 |

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge which is added to the monthly charges computed at Quantity Rates for water used. (T)

SPECIAL CONDITIONS

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

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APPENDIX C Twin Valley Water Company Comparison of Recommended Rates – Test Year 2014

| <u>Tariff Description</u> | <u>Tariff Rates</u> | | <u>Recommended Increase</u> | |
|---------------------------|---------------------|--------------------|-----------------------------|-------------------|
| | <u>Present</u> | <u>Recommended</u> | <u>Dollars</u> | <u>Percentage</u> |
| Service Charge: | | | | |
| 3/4-inch meter | \$27.99 | \$46.46 | \$18.47 | 66.0% |
| 1-inch meter | \$41.87 | \$69.50 | \$27.63 | 66.0% |
| 1-1/2 inch meter | \$55.72 | \$92.49 | \$36.77 | 66.0% |
| 2-inch meter | \$74.78 | \$124.13 | \$49.35 | 66.0% |
| Quantity Charge: | | | | |
| Per Ccf | \$3.41 | \$5.66 | \$2.25 | 66.0% |

A monthly bill comparison for a customer with a **3/4-inch meter** is shown below:

| <u>Usage 100 cu. Ft.</u> | <u>Tariff Rates</u> | | <u>Recommended Increase</u> | |
|--------------------------|---------------------|----------|-----------------------------|-------------------|
| | <u>Present</u> | | <u>Dollars</u> | <u>Percentage</u> |
| 0 | \$27.99 | \$46.46 | \$18.47 | 66.0% |
| 5 | \$45.04 | \$74.76 | \$29.72 | 66.0% |
| 10 | \$62.09 | \$103.06 | \$40.97 | 66.0% |
| 15 | \$79.14 | \$131.36 | \$52.22 | 66.0% |
| 20 | \$96.19 | \$159.67 | \$63.48 | 66.0% |
| 30 (avg.) | \$130.29 | \$216.27 | \$85.98 | 66.0% |
| 50 | \$198.49 | \$329.47 | \$130.98 | 66.0% |

A monthly bill comparison for a customer with a **1-inch meter** is shown below:

| <u>Usage 100 cu. Ft.</u> | <u>Tariff Rates</u> | | <u>Recommended Increase</u> | |
|--------------------------|---------------------|----------|-----------------------------|-------------------|
| | <u>Present</u> | | <u>Dollars</u> | <u>Percentage</u> |
| 0 | \$41.87 | \$69.50 | \$27.63 | 66.0% |
| 5 | \$58.92 | \$97.80 | \$38.83 | 66.0% |
| 10 | \$75.97 | \$126.10 | \$50.13 | 66.0% |
| 15 | \$93.02 | \$154.40 | \$61.38 | 66.0% |
| 20 | \$110.07 | \$182.70 | \$72.63 | 66.0% |
| 30 (avg.) | \$144.17 | \$239.31 | \$95.14 | 66.0% |
| 50 | \$212.37 | \$352.51 | \$140.14 | 66.0% |

END OF APPENDIX C

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APPENDIX D Twin Valley Water Company Adopted Quantities – Test Year 2014

1. Purchased Power

Vendor: Pacific Gas and Electric
KWH/CCF (of Sales): 7.48
Adopted Usage KWH: 246,984
Total Cost: \$47,929
Composite Energy Cost (\$/KWH): \$0.19406

2. Water

Sales (Ccf): 33,273
Production (Ccf): Unknown
Non-Revenue (%): Unknown

3. Pump Tax

\$0.00

4. Number of Service Connections

| <u>Meter Size</u> | <u>Average Number of Customers</u> |
|---|------------------------------------|
| ⁵ / ₈ x ³ / ₄ -inch | 0 |
| ³ / ₄ -inch | 33 |
| 1-inch | 44 |
| 1 ¹ / ₂ -inch | 14 |
| 2-inch | 1 |
| Total | 92 |

5. Tax Calculation

| <u>Line No.</u> | <u>Item</u> | <u>State Tax</u> | <u>Federal Tax</u> |
|-----------------|------------------------------|------------------|--------------------|
| 1. | Operating Revenue | \$ 260,799 | \$ 260,799 |
| 2. | O & M Expenses | \$ 186,499 | \$ 186,499 |
| 3. | Taxes Other Than Income | \$ 5,067 | \$ 5,067 |
| 4. | Depreciation | \$ 12,196 | \$ 12,196 |
| 5. | Interest Expense | \$ 0 | \$ 0 |
| 6. | Taxable Income for State Tax | \$ 57,037 | |
| 7. | State Tax | \$ 5,042 | |
| 8. | Taxable Income for FIT | | \$ 51,995 |
| 9. | Federal Income Tax | | \$ 7,799 |
| 10. | Total Income Tax | | \$ 12,841 |

California Corporate Franchise Rate: 8.84%

Federal Income Tax Rate

1st \$50K: 15%

Next \$25K: 25%

END OF APPENDIX D

Twin Valley Water Company
Advice Letter 40
Service List

Mike and Coleen Colwell, 14015 Oak Valley Rd., Morgan Hill, CA 95037

Kurt W. Vaillancourt & family, 14143 Hidden Spring Lane, Morgan Hill, CA 95037

Jaime Tompkins, Jaime@tigglesworth.com

Sean Tompkins sean@tigglesworth.com

B J Senior, 13935 Shelia Ave., Morgan Hill, CA 95037

Bob and Brenda Sass bsassy@garlic.com

Wahhab Family, 14000 Oak Valley Rd., Morgan Hill, CA 95037

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