

PROPOSED RESOLUTION

Resolution W-5052
DWA

AGENDA ID #14112 (Rev. 1)
ITEM #29

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5052
July 23, 2015

RESOLUTION

**(RES. W-5052) SIERRA CITY WATER WORKS. ORDER
AUTHORIZING A GENERAL RATE INCREASE, PRODUCING
AN ADDITIONAL ANNUAL REVENUE OF \$7,665, OR 15.4%,
FOR TEST YEAR 2015.**

SUMMARY

By Advice Letter 31 filed on September 30, 2014, Sierra City Water Works seeks an increase to its rates of \$11,021 for water service to recover increased operating expenses and earn an adequate return on its plant investment.

This resolution grants an increase in gross annual revenues of \$7,665, or 15.4%, over revenues earned under current rates, which is estimated to provide a return on margin of 21.34% for Test Year 2015.

BACKGROUND

Sierra City Water Works (Sierra City), a Class D water utility, has requested authority through Advice Letter (AL) 31 under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities (PU) Code to increase its water rates by 22.1%, or \$11,021, for Test Year (TY) 2015. The purpose of the rate increase is to recover increased operating expenses and to provide either an adequate rate of return or return on margin.

The present rates were established on June 24, 2014 by approval of AL 30 authorizing a Consumer Price Index (CPI) increase of \$1,039.35 or 1.5%. The last general rate increase was granted on December 18, 2008, pursuant to Resolution (Res.) W-4730, which authorized a rate increase of \$28,391, or 95.9%, in TY 2009 and \$11,295, or 19.5%, in 2010 escalation year, resulting in a return on rate base of 13.5%.

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

By AL 32 filed on January 21, 2015, Sierra City requested an interim rate increase in accordance with Res. W-4540. AL 32 was approved with an effective date of February 8, 2015 and authorized an interim rate increase of \$748, or 1.5%, based on CPI. The interim rate increase is subject to refund or increase, relative to the rates established in this general rate case by this resolution. However, Sierra City continues using rates established by AL 30 and will continue using those rates until the proposed rates from this resolution are effective.

Sierra City serves 71 metered and 15 flat rate customers in Sierra City, Sierra County with a water system that has a total storage capacity of approximately 40,000 gallons. The utility receives its water supply from a local spring, and a filter house, using 5 micron filter media fabric, provides water treatment for the distribution system. The entire system is gravity fed.

Sierra City is owned by Winibeth Smith. Mrs. Smith provides overall management services and is responsible for accounts receivable, billings, banking, bookkeeping, and customer relations. Her son Dennis Smith performs engineering services and day-to-day operations. These day-to-day operations include the following: customer relations, plant, equipment, and pipe maintenance along with water quality and control and meter reading.

Sierra City's resident income levels are in the middle to low income range, although many houses serve as vacation homes.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on April 10, 2015. The Division of Water and Audits (DWA) and Sierra City did not receive any protest letters opposing the rate increase. No informal public meeting was held.

DISCUSSION

In reviewing Sierra City's rate increase request, DWA conducted an independent analysis of the utility's operations. Appendix A shows Sierra City's and DWA's estimated summary of earnings at present, proposed, and recommended rates for TY 2015. The utility was notified of the discrepancies between its estimates and DWA's and agrees with DWA's recommended rates.

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

Recovery of Shortfall Revenues

As the rates established by this resolution are greater than existing rates, DWA recommends that the shortfall in revenue between the interim and final rates be recovered by a surcharge of approximately \$4.95 per month per customer over a 12-month period.

Operating Expenses

DWA reviewed Sierra City's operating expenses which include materials, contract work, transportation expenses, other plant maintenance, office salaries, employee pensions and benefits, office services and rentals, office supplies and expenses, professional services, insurance, regulatory commission expense, general expenses, depreciation expenses, and taxes. The utility does not require purchased power or purchased water to operate its system. DWA verified the operating expenses by reviewing supporting documents for substantiation and accuracy and included the amounts that were deemed reasonable and prudent. Inflation adjustments were made using escalation factors provided by the Office of Ratepayer Advocates (ORA).¹

Rate Base

DWA reviewed Sierra City's plant accounts from the last authorized 2010 escalation year. No new investments were made since 2010 except minor equipment and office furniture in 2012 and none are planned for TY 2015.

The major rate base difference between Sierra City and DWA is due to different depreciation estimates. Sierra City increased the depreciation rate from 2.5% to 4% in 2013. Also, Sierra City added \$43,233 as debits to lower the depreciation reserve in 2013. This allowed Sierra City to recover the full depreciation expense of \$9,194 in TY 2015.

In contrast, DWA used a depreciation rate of 3% for 2013 to 2015 based on analysis of the average depreciation rates of similar sized utilities. DWA did not include the debits to reserve amount of \$43,233, as Sierra City was unable to provide an analysis of its calculation and no plant was retired. As a result, DWA estimates the utility's plant-in-

¹ See, ORA December Escalation Memos for 2010, 2011, 2012, 2013, & 2014

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

service to be fully depreciated by the end of TY 2015 and the 2015 depreciation expense should be \$2,865.

Operating Revenue

Sierra City's rate increase request was based on a rate of return of 11.80%. In accordance with the California Public Utilities Commission (Commission) ratemaking policy adopted by Decision (D.) 92-03-09, two methods are available to determine revenue requirement for Class C and D water utilities, the Rate of Return (ROR) and Return on Margin (ROM) methods.² D. 92-03-09 directs DWA to calculate the company's rates and revenue requirement using both of these methods and to recommend the ratemaking method resulting in the greater return.³ DWA determined that the ROM method produced the higher revenue requirement and therefore recommends that the ROM method be used for Sierra City's TY 2015 GRC.

For 2015, the Division's recommended ROM for a class D water utility is 21.34%.⁴ DWA's analysis was therefore based on an ROM of 21.34%. Using this ROM, DWA calculates a revenue requirement of \$57,526 for Sierra City.

Rate Design

Sierra City's current rate structure consists of two schedules: General Metered Service and General Flat Rate Service. The rates proposed by DWA are shown in Appendix B.

D. 92-03-093 allows Class D utilities to recover up to 100% of fixed costs in their readiness to serve charge. For metered customers, DWA has recommended that 88% of Sierra City's fixed costs be recovered through the service charge, with the other 12% recovered through quantity rates. DWA's recommendation is based on matching Sierra

² The revenue requirement and rates using the ROR method are based on company's rate base and under the ROM method the revenue requirement is based on the company's overall expenses which include operating and maintenance and depreciation expenses, income and other taxes, and an operating margin.

³ D. 92-03-093, Ordering Paragraph 8.

⁴ Division of Water and Audits' March 12, 2015, memorandum regarding Rates of Return and Rates of Margin for Class C and D Water Utilities: <http://www.cpuc.ca.gov/NR/rdonlyres/B0B16EBF-3955-4C03-BDE7-C74A83462991/0/2015DWAMemoROR.pdf>.

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

City's proposed quantity rate, which resulted in a negligible difference from the GRC increase. By aligning DWA's proposed quantity rates with Sierra City's, the percentage increase resulting from this GRC shifted the revenue recovery towards the quantity rate rather than the service charge to give a price signal to customers to encourage conservation.

The number of flat rate customers has steadily declined over the years as they have been converted to metered rates. However, the utility does not expect to make any conversions in TY 2015. To encourage the conversion from flat rates to meters for water conservation, the flat rate was set above the average rate of a metered customer.

At DWA's recommended rates, the bill for a 5/8-inch metered customer using 15 Ccf would increase from \$59.77 to \$71.51, an increase of \$11.74 or 19.6%. The bill for a flat rate customer would increase from \$66.08 to \$83.09, an increase of \$17.01 or 25.7%. A comparison of customer bills at present and recommended rates is shown in Appendix C.

Prior to Governor Brown's Executive Order⁵ calling for a 25% reduction in water use, Sierra City had already made efforts to reduce water usage and reduced consumption by about 17.5% in 2014 compared to 2013. With a significant reduction having already occurred, the utility expects a slight reduction in water usage for 2015. DWA agrees with Sierra City in its lowered consumption estimates and forecasts the annual water usage for TY 2015 to be 4000 Ccf compared to the 4271 Ccf recorded usage in 2014. The adopted quantities and tax calculations are shown in Appendix D.

Sierra City also requested that Schedule No. F, Facilities Fee, be increased. DWA agrees and increased the fee to reflect current costs.

⁵ See, Governor's Executive Order, April 1, 2015

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

SAFETY AND COMPLIANCE

The Commission considers a number of safety factors such as water quality, system design, operation and maintenance, and service, including adequate source supply and capacity to meet maximum day demands and public fire protection. General Order 103-A establishes the rules for water service, minimum standards for operation, maintenance, design, and construction for the regulated water utilities. One of the Commission's highest safety priorities is to ensure that water utilities, serving water for human consumption, provide water that is not harmful or dangerous to human health.

DWA contacted the State Water Resources Control Board (SWRCB) and found that Sierra City's water system has no major deficiencies and that the system operators are properly certified. SWRCB also reports that Sierra City has not had any major compliance issues except that the water system is past due on monitoring for perchlorate, nitrate and some organic constituents. As such, SWRCB considers Sierra City to be in compliance with all applicable water quality regulations and standards.

Unauthorized Long-Term Debt

DWA's Utility Audit, Finance and Compliance Branch (UAFCB) conducted a review of Sierra City's financial information and found that Schedule E – Long-Term Debt (Account 224) reported in the annual reports had not been approved by the Commission, which is in violation of Section 825 of the PU Code. Since April of 1998, Sierra City received various loans from the owner but failed to secure Commission authorization prior to incurring such indebtedness.

Section 825 states that all stock, note, or evidence of indebtedness of a public utility, issued without an order of the Commission, is void. However, UAFCB finds that Sierra City's unauthorized long-term debt may be reasonable if Sierra City can demonstrate that the debt was used for proper purposes as described in Section 817 of the PU Code. Therefore, UAFCB recommends Sierra City file an advice letter, pursuant to Section 816 through 851 of the PU Code, to request approval of the debt. If Sierra City cannot demonstrate that the proceeds were used for proper purposes, the debt will be declared null and void, and Sierra City will have to convert the remaining balance of the loan to paid-in capital or equity.

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

Delinquent User Fees

Sierra City is required by Section 433 of the PU Code to collect a user fee that is then paid to the Commission. The Commission's Budget and Fiscal Services Office has reported that the utility is missing annual payments from 2010 and 2014. This resolution orders Sierra City to pay Commission user fees in full before implementing the recommended rates.

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 Division of Water and Audits (Division) are reasonable and should be adopted.
2. The rates (Appendix B) recommended by the Division are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. After the rates approved by this Resolution become effective, Sierra City Water Works (Sierra City) should be allowed to file a Tier 2 Advice Letter within 30 days to collect the under-collected revenues from February 8, 2015, the interim rate date, to the effective date of the new rates.
6. The Long-Term Debt reported in Sierra City's annual reports was not authorized by the Commission, but Sierra City should be allowed to file a Tier 3 Advice Letter seeking authorization if proceeds were used for proper purposes, as provided in Public Utilities Code Section 817.

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

7. The 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. Sierra City Water Works shall pay its Commission user fee in full for the years 2010 and 2014.
2. Upon compliance with Ordering Paragraph 1, authority is granted under Public Utilities Code Section 454 to Sierra City Water Works, to file a supplemental Advice Letter with the revised rate schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective Schedule No. 1, General Metered Service and Schedule No. 2, General Flat Rate Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
3. The quantities found in Appendix D used to develop the Division of Water and Audits' recommendations are adopted.
4. Sierra City Water Works is authorized to file a Tier 2 Advice Letter within 30 days from the effective date of the authorized rates to collect the under-collected revenues from February 8, 2015, the interim rate date, to the effective date of the new rates established by this Resolution. This Advice Letter should become effective upon approval by the Division of Water and Audits.

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

5. Sierra City Water Works is authorized to file a Tier 3 Advice Letter within 30 days from the effective date of this Resolution to seek authorization of the currently unapproved Account 224 – Long-Term Debt, indicating the date, amount, terms, and use of the loans. Otherwise, the Long-Term Debt shall become null and void.

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

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

APPENDIX A Sierra City Water Works, Inc. Summary of Earnings – Test Year 2015

<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>	
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Recommended Rates</u>
<u>Operating Revenue</u>				
Flat	\$18,978	\$14,524	\$18,978	\$14,957
Metered	\$30,883	\$46,358	\$30,883	\$42,569
Total Revenue	\$49,861	\$60,882	\$49,861	\$57,526
<u>Operating Expenses</u>				
610 Purchaed Water	\$0	\$0	\$0	\$0
615 Power	\$0	\$0	\$0	\$0
618 Other Volume Related Expenses	\$0	\$0	\$0	\$0
Ground Water Assessment	\$0	\$0	\$0	\$0
630 Employee Labor	\$0	\$0	\$0	\$0
640 Materials	\$890	\$890	\$1,887	\$1,887
650 Contract Work - General	\$10,239	\$10,239	\$9,223	\$9,223
Water Testing	\$0	\$0	\$0	\$0
660 Transportation Expenses	\$5,227	\$5,227	\$6,843	\$6,843
664 Other Plant Maintenance	\$898	\$898	\$828	\$828
670 Office Salaries	\$3,848	\$3,848	\$3,764	\$3,764
671 Management Salaries	\$6,413	\$6,413	\$6,240	\$6,240
674 Employee Pensions & Benefits	\$0	\$0	\$0	\$0
676 Uncollectibles Expense	\$0	\$0	\$0	\$0
678 Office Services & Rentals	\$75	\$75	\$352	\$352
681 Office Supplies & Expenses	\$2,617	\$2,617	\$3,538	\$3,538
682 Professional Services	\$2,238	\$2,238	\$2,221	\$2,221
684 Insurance	\$2,474	\$2,474	\$2,651	\$2,651
688 Regulatory Commission Expense	\$935	\$935	\$935	\$935
689 General Expenses	\$2,939	\$2,939	\$1,380	\$1,380
Subtotal	\$38,793	\$38,793	\$39,862	\$39,862
Depreciation	\$9,169	\$9,169	\$2,865	\$2,865
Income Tax	\$800	\$2,392	\$1,295	\$2,649
Taxes Other than Income Taxes	\$2,307	\$2,307	\$3,032	\$3,032
Interest	\$0	\$0	\$0	\$0
Total Deductions	\$51,069	\$52,661	\$47,054	\$48,408
Net Revenue	-\$1,208	\$8,221	\$2,807	\$9,118
<u>Rate Base</u>				
Average Plant	\$267,393	\$267,393	\$267,393	\$267,393
Average Accumulated Depreciation	\$197,726	\$197,726	\$228,420	\$228,420
Net Plant	\$69,667	\$69,667	\$38,973	\$38,973
<u>Less</u> Advances	\$0	\$0	\$0	\$0
Contributions	\$0	\$0	\$0	\$0
<u>Plus</u> Working Cash	\$0	\$0	\$6,644	\$6,644
Materials & Supplies	\$0	\$0	\$4,000	\$4,000
Rate Base	\$69,667	\$69,667	\$49,617	\$49,617
Rate of Margin	-2.52%	17.14%	6.57%	21.34%

END OF APPENDIX A

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

APPENDIX B Sierra City Water Works

Schedule No. 1 GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Quantity Rates

All water delivered, per 100 cu. ft.	\$ 2.527	(I)
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Service Charge:

Per Month

For 5/8 x 3/4 -inch meter	\$ 33.60	(I)
For 3/4 -inch meter	\$ 50.41	
For 1 -inch meter	\$ 84.01	
For 1-1/2 -inch meter	\$ 168.02	
For 2 -inch meter	\$ 268.83	
For 3 -inch meter	\$ 504.06	(I)

SPECIAL CONDITIONS

1. The established billing cycle is quarterly, i.e., every three months. The utility may bill monthly at its option.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
3. All new customers are subject to a one time pass-through charge. This charge offsets the Sierra City Fire Protection District Main Extension Contract.
4. A late charge will be imposed per schedule No. LC.

(continued)

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

APPENDIX B Sierra City Water Works

Schedule No. 2 GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

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

RATES

	<u>Per Month</u>	
For each single family residential unit including premises not, exceeding 11,000 s. ft. in area.....	\$ 83.09	(I)

SPECIAL CONDITIONS

1. The established billing cycle is quarterly, i.e., every three months. The utility may bill monthly at its option.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
3. All new customers are subject to a one time pass-through charge. This charge offsets the Sierra City Fire Protection District Main Extension Contract.
4. A late charge will be imposed per schedule No. LC.

(continued)

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

APPENDIX B Sierra City Water Works

Schedule No. F FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises due to change in use.

TERRITORY

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

RATES

Initial Fee for each Service Connection

For 5/8 x 3/4 -inch meter	\$ 5,000	(I)
For 3/4 -inch meter	\$ 7,500	
For 1 -inch meter	\$ 12,500	
For 1-1/2 -inch meter	\$ 25,000	
For 2 -inch meter	\$ 40,000	
For 3 -inch meter	\$ 50,000	(I)

SPECIAL CONDITIONS

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. Payments made under this schedule **are not** subject to reimbursement fee set for in Schedule No. UF.

END OF APPENDIX B

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

APPENDIX C Sierra City Water Works

COMPARISON OF RATES

Test Year 2015

METERED RATE SERVICE	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Quantity Rate:			
All water delivered, per 100 cu. ft.	\$ 2.060	\$ 2.527	22.7%
Service Charge:			
5/8 x 3/4 -inch	\$ 28.87	\$ 33.60	16.4%
3/4 -inch	\$ 43.30	\$ 50.41	16.4%
1 -inch	\$ 72.17	\$ 84.01	16.4%
1-1/2 -inch	\$ 144.33	\$ 168.02	16.4%
2 -inch	\$ 230.93	\$ 268.83	16.4%
3 -inch	\$ 433.00	\$ 504.06	16.4%
FLAT RATE SERVICE	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
	\$ 66.08	\$ 83.09	25.7%

MONTHLY BILL COMPARISON 5/8"

<u>Usage (Ccf)</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 28.87	\$ 33.60	\$ 4.73	16.4%
5	\$ 39.17	\$ 46.24	\$ 7.07	18.0%
10	\$ 49.47	\$ 58.87	\$ 9.40	19.0%
<i>15 (average)</i>	\$ 59.77	\$ 71.51	\$ 11.74	19.6%
20	\$ 70.07	\$ 84.14	\$ 14.07	20.1%
30	\$ 90.67	\$ 109.41	\$ 18.74	20.7%
40	\$ 111.27	\$ 134.68	\$ 23.41	21.0%

END OF APPENDIX C

PROPOSED RESOLUTION

Resolution W-5052
DWA

July 23, 2015 (Rev. 1)

APPENDIX D Sierra City Water Works

ADOPTED QUANTITIES

Test Year 2015

1. Purchased Power	None
2. Purchased Water	None
3. Water Sales in Ccf	4,000
4. Service Connections	
5/8 x 3/4"	65
3/4"	5
1"	
1-1/2"	
2"	1
3"	
<u>Flat Rate</u>	<u>15</u>
Total	86
5. Payroll	
Employee Labor	None
Office Salaries	\$ 3,764
Management Salaries	\$ 6,240
6. Payroll Taxes	\$ 1,755
7. Property Taxes	\$ 1,277
8. Tax Calculation	
Operating Revenues	\$ 57,526
Operating Expenses	\$ 39,862
Taxes Other than Income	\$ 3,032
Depreciation	\$ 2,865
Taxable Income for State	\$ 11,767
State Taxes	\$ 1,040
Taxable Income for Federal	\$ 10,727
Federal Income Taxes	\$ 1,609

END OF APPENDIX D

Sierra City Water Works, Inc.

Advice Letter 31

Service List

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

Malcolm R. Cooper, Chairman
P.O. Box 516
Sierra City Fire Protection District
Sierra City, CA 96215

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

John Evans, Sheriff
Sierra County
P.O. Box 66
Downieville, Ca 95936
johnevans@sierracounty.ws

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

Clerk of the Board
Sierra County Board of Supervisors
P.O. Drawer D
100 Courthouse Square, Ste. 11
Downieville, CA 95936