

PROPOSED RESOLUTION

AGENDA ID #14740 (Rev. 1)
ITEM #14

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5093
April 21, 2016

RESOLUTION

**(RES. W-5093) MEYERS WATER COMPANY, INC. ORDER AUTHORIZING
A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL
REVENUE OF \$24,379, OR 34.77%, FOR TEST YEAR 2015.**

SUMMARY

Meyers Water Company filed Advice Letter 19 on October 29, 2015, requesting 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 rates for water service by \$27,857, or 40.05%, over current revenues in Test Year 2015 due to increased expenses and to earn a rate of margin of 21.34%.

This resolution grants a general rate increase of \$24,379 or 34.77%, in Test Year 2015. This increase will provide a 21.34% rate of margin in the test year.

BACKGROUND

Meyers Water Company (Meyers), a class D utility, requests 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 rates for water service to produce additional revenues of \$27,857, or 40.05% in Test Year (TY) 2015, and a rate of margin (ROM) of 21.34%. The last general rate case (GRC) became effective on May 3, 2007 pursuant to Resolution (Res.) W-4642, which authorized a general rate increase of \$25,524, or 55.75%, and a ROM of 25%. The present rates became effective on October 28, 2015, by approval of Advice Letter (AL) 18, which authorized an interim rate increase of \$557, or 0.8%, subject to increase or decrease.

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Meyers currently serves 95 flat-rate customers in the Edgerly Island subdivision, located approximately 10 miles south of the city of Napa, in Napa County. The system consists of one well, two pumps, distribution mains, services, water treatment equipment, etc. Distribution mains are PVC plastic, ranging in size from 2-inch to 4-inch. Water supply is adequate and is treated through Meyers' water treatment facility which produces good quality water.

NOTICE AND PROTEST

A notice of the proposed GRC was mailed to each customer and to the general service list on December 16, 2015. One letter objecting to the increase was received by the Division of Water and Audits (DWA), primarily complaining about the magnitude of the increase and Meyers replied accordingly.

The public meeting was held on January 6, 2016 at 6:30 PM in the Library of the Stone Bridge School located at 1680 Los Carneros Avenue, Napa, CA to discuss the pending GRC for Meyers. There were thirty people in attendance. Mr. Marino Rodriguez, consultant to Meyers, explained the need for the increase. Mr. Jay Gardner, manager of Meyers, addressed various service questions. The meeting was then opened up to questions and comments. Comments focused on the size of the proposed rate increase.

In setting rates in this resolution, the Public Utilities Commission has balanced the financial requirements of Meyers with the rate concerns of its customers.

DISCUSSION

In reviewing Meyers' rate increase request, DWA made an independent analysis of Meyers' operations. Appendix A of this resolution shows Meyers' and DWA's estimated summary of earnings at present, proposed, and recommended rates for TY 2015.

Meyers was informed of DWA's differing views of revenues and expenses and agrees with DWA's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B. DWA recommends that the Commission approve the rate increase and resulting rates shown in Appendix B.

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Revenues

The difference between Meyers' present revenues of \$69,563 and DWA's present revenues of \$70,121 is due to Meyers' use of estimated revenues while DWA used the present interim rates by approval of AL 18, which authorized an interim rate increase of 0.8%.

Expenses

DWA reviewed Meyers' estimated 2015 operating expenses, including purchased water, purchased power, other volume related expense, employee labor, materials, contract work, transportation expense, other plant maintenance, office salaries, management salaries, employee pensions and benefits, uncollectibles, office services and rentals, office supplies and expenses, professional services, insurance, regulatory Commission expense, general expenses, depreciation, and property taxes. DWA verified the operating expenses by reviewing supporting documents for substantiation and accuracy and included the amounts that were verifiable and deemed reasonable for ratemaking purposes.

DWA's estimate of Meyers' operating expenses for TY 2015 is based on DWA's analysis of Meyers' operations and expense data from the years 2012 through 2014, except for expenses relating to purchased power and regulatory Commission expense.

For estimating purchased power costs, Meyers used 2014 annual usage and applied the power rates that became effective September 1, 2015. DWA agrees.

Meyers requests \$3,933 for regulatory Commission expense, by amortizing the consultant fees and other expenses related to AL filings over three years. DWA recommends \$2,600 for regulatory Commission expense, by amortizing the cost over five years to lessen the rate impact on the customers. Meyers now agrees.

For estimating all other expense categories, Meyers used the same method that DWA used, which is based on a recorded three year average, 2012 through 2014. There are no differences between Meyers' and DWA's estimates for all other expense categories.

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Rate Base

There are no differences between Meyers' and DWA's estimates in depreciation, taxes other than income, and rate base.

Rate of Return

There are two methods available for DWA to utilize in the rate-making process of calculating the revenue requirement: (a) Rate of Return (ROR), and (b) Rate of Margin. DWA calculates the revenue requirement utilizing the ROR on rate base method and then calculates the revenue requirement utilizing the ROM method. Policy dictates that DWA recommends the method that produces the higher revenues.¹ 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."² If only the ROR method was used, a utility with little or no rate base would earn little or no return. By having the opportunity to use the ROM method, these utilities are able to earn a reasonable return and produce revenues for necessary investment in plant.

In Res. W-4524, dated March 17, 2005, the Commission adopted a revised set of standard practices for determining the profit of Class C and D water utilities using the ROR on rate base and ROM methods. Based on this revision, DWA determines a standard set of rates of return and rates of margin based on current data, to be used in that year's Class C and D general rate cases. The ROM for 2015 was 21.34%.

Using the ROM method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, multiplied times the ROM. Comparison of the revenue requirement indicates that the ROM method produces higher revenue of \$94,500 compared to the ROR method which produces \$73,086. Based on current rates, Meyers' annual revenue for TY 2015 is \$70,121. At the recommended ROM of 21.34%, the increase in revenue will be \$24,379 or 34.77% for TY 2015.

¹ D.92-03-093. March 31, 1992.

² *ibid*, p.37.

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Rates

Meyers' current rate structure consists of one schedule: 2R, Residential Flat Rate Service. Meyers files its Annual Reports regularly and there are no other outstanding Commission orders.

Meyers requested to establish a general metered service schedule to conserve water. There were no protests on this issue and DWA recommends approval. The rate and special conditions are found in Schedule 3M, General Metered Service, included in Appendix B.

Meyers requested to establish a facilities fee. Facilities fees for Class D utilities were established by Res. W-4110, on September 3, 1998. This resolution authorized generic tariffs for facilities fees with a charge of \$2,000 for the smallest meter and increasing for larger meter sizes according to standard meter ratios. The recommended Schedule F, Facilities Fees, is included in Appendix B.

At DWA's recommended rates shown in Appendix B, the bill for a typical residential customer would receive an increase in a monthly bill from \$61.51 to \$82.89 or 34.77% in TY 2015. 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.

UTILITY SAFETY AND COMPLIANCE

In terms of safety and compliance, the water served by the utility meets all applicable primary water quality standards set forth by the State Water Resources Control Board. Meyers has been filing annual reports as required.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, the draft resolution was mailed to parties for comments. No comments were received.

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FINDINGS

1. The present rates became effective on October 28, 2015, by approval of Advice Letter 18, which authorized an interim rate increase of \$557, or 0.8%, subject to increase or decrease.
2. Meyers Water Company should be ordered to file a Tier 2 advice letter within 30 days from the effective date of this resolution to collect the under-collected revenues from October 28, 2015, the interim rate date, to the effective date of the new rates established in this resolution.
3. The Division of Water and Audits' recommended summary of earnings (Appendix A) is reasonable and should be adopted.
4. The rates proposed by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
5. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.
6. Meyers Water Company is in compliance with the State Water Resources Control Board water quality standards for safe drinking water.
7. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.

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THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Meyers Water Company to file a supplemental advice letter with the revised schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective rate Schedule No. 2R, Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Meyers Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from October 28, 2015, the interim rate date, to the effective date of the new rates established in this resolution. The advice letter shall become effective upon approval by Staff of the Division of Water and Audits.
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 April 21, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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APPENDIX A

MEYERS WATER COMPANY Summary of Earnings - Test Year 2015

	Utility Estimated Rates		Division Estimated Rates	Recommended Rates
	Present	Proposed	Present	
<u>Operating Revenues</u>				
Flat Water Revenue	\$69,563	\$97,420	\$70,121	\$94,500
Total Revenue	69,563	97,420	70,121	94,500
<u>Operating Expenses</u>				
Purchased Water	0	0	0	0
Purchased Power	3,759	3,759	3,759	3,759
Other Volume Related	738	738	738	738
Employee Labor	12,000	12,000	12,000	12,000
Materials	361	361	361	361
Contract Work	4,833	4,833	4,833	4,833
Water Testing	1,617	1,617	1,617	1,617
Transportation Expenses	3,947	3,947	3,947	3,947
Other Plant Maintenance	1,753	1,753	1,753	1,753
Office Salaries	9,600	9,600	9,600	9,600
Management Salaries	10,080	10,080	10,080	10,080
Employee Pensions and Benefits	0	0	0	0
Uncollectibles	0	0	0	0
Office Services and Rentals	3,600	3,600	3,600	3,600
Office Supplies and Expenses	2,882	2,882	2,882	2,882
Professional Services	5,015	5,015	5,015	5,015
Insurance	3,115	3,115	3,115	3,115
Regulatory Commission Expense	3,933	3,933	2,600	2,600
General Expense	1,213	1,213	1,213	1,213
Total Expenses	68,445	68,445	67,112	67,112
Depreciation	3,326	3,326	3,326	3,326
Taxes Other Than Income	4,612	4,612	4,612	4,612
Income Taxes	800	4,737	800	4,379
Total Deductions	77,183	81,120	75,850	79,429
Net Revenue	-7,620	16,300	-5,729	15,071
RATE BASE				
Utility Plant	141,635	141,635	141,635	141,635
Construction work in progress	0	0	0	0
Materials & Supplies	0	0	0	0
Working Cash	0	0	0	0
Accumulated Depreciation	101,754	101,754	101,754	101,754
Advances for Construction	0	0	0	0
Contributions in Aid of Constr.	0	0	0	0
Contributions	13,640	13,640	13,640	13,640
TOTAL RATE BASE	26,241	26,241	26,241	26,241
Rate of Return	Negative	-	Negative	-
Rate of Margin		21.34%		21.34%

END OF APPENDIX A

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APPENDIX B
Sheet 1
MEYERS WATER COMPANY
Schedule No. 2R
RESIDENTIAL FLAT RATE SERVICE
TEST YEAR 2015

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Edgerly Island subdivision, located approximately 10 miles south of the city of Napa, in Napa County.

RATES

	Per Service Connection <u>Per Month</u>
For a single-family residential unit, Including premises not exceeding 10,000 sq. ft. in area	\$82.89 (I)

SPECIAL CONDITIONS

1. The above flat rate applies to service connection not larger than one-inch in diameter.
2. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

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APPENDIX B
Sheet 2
MEYERS WATER COMPANY
Schedule No. 3M
GENERAL METERED SERVICE
TEST YEAR 2015

APPLICABILITY

Applicable to all metered rate residential water service.

TERRITORY

Edgerly Island subdivision, located approximately 10 miles south of the city of Napa, in Napa County.

RATES

Quantity Charge:

All water, per 100 cu. ft.	\$0.95	(I)
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Per Meter Per Month

¹Monthly Service Charge:

For 5/8 x 3/4 inch meter	\$ 75.11	(I)
For 3/4 inch meter	\$ 112.67	
For 1 inch meter	\$ 187.78	
For 1 1/2 inch meter	\$ 375.55	
For 2 inch meter	\$ 600.88	
For 3 inch meter	\$1,126.65	
For 4 inch meter	\$1,877.75	
For 6 inch meter	\$3,755.50	(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 reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.

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APPENDIX B
Sheet 3
MEYERS WATER COMPANY
SCHEDULE F
FACILITIES FEES
Test Year 2015

APPLICABILITY

(N)

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains and for additional service connections to existing premises.

TERRITORY

Edgerly Island subdivision, located approximately 10 miles south of the city of Napa, in Napa County.

RATES

Initial Fee for each Service Connection:

For 5/ 8 x 3/4-inch meter	\$ 2,000
For 3/4-inch meter	\$ 3,000
For 1-inch meter	\$ 5,000
For 1.5-inch meter	\$10,000
For 2-inch meter	\$16,000
For 3-inch meter	\$30,000
For 4-inch meter	\$50,000
For 6-inch meter	\$100,000

SPECIAL CONDITIONS

1. Facilities 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. These fees are not subject to the Public Utility Commission Reimbursement Fee surcharge in Schedule UF.
3. These fees shall be used only for the repair and replacement or the installation of new infrastructure.
4. These fees shall be deposited within five days of receipt in a separate bank account paying interest.
5. The plant constructed with facilities fees shall be removed from rate base for rate-making purposes.

(N)

END OF APPENDIX B

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APPENDIX C MEYERS WATER COMPANY

Comparison of Flat Rates - Test Year 2015

<u>Present Rate</u>	<u>Recommended Rate</u>	<u>% Increase</u>
\$61.51	\$82.89	34.77%

END OF APPENDIX C

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APPENDIX D MEYERS WATER COMPANY Adopted Quantities - Test Year 2015

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
2. State Tax Rate: 8.84%
3. Service Connections: 95 Flat Rate Customers
4. Property Taxes: \$4,612
5. Contract Work - Water Testing: \$1,617
6. Purchased Power \$3,759

7. Adopted Tax Calculations

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenues	\$94,500	\$ 94,500
2.	Expenses	\$67,112	\$ 67,112
3.	Taxes Other Than Income Taxes	\$ 4,612	\$ 4,612
4.	Depreciation	\$ 3,326	\$ 3,326
5.	State Taxable Income	\$19,450	
6.	State Income Tax (@8.84% or \$800 minimum)	\$ 1,719	
7.	Federal Taxable Income		\$ 17,731
8.	Federal Income Tax (15%)		\$ 2,660
9.	TOTAL INCOME TAX		\$ 4,379

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-5093 on all parties in these filings or their attorneys as shown on the service list.

Dated March 22, 2016 at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, 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.

**MEYERS WATER COMPANY
ADVICE LETTER NO. 19 SERVICE LIST**

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