PROPOSED RESOLUTION

AGENDA ID #14874

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS **RESOLUTION W-5097**
Water and Sewer Advisory Branch **May 26, 2016**

R E S O L U T I O N

(RES. W-5097) BIG BASIN SANITATION COMPANY. ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL REVENUE OF $394, OR 1.00%, FOR TEST YEAR 2016.

SUMMARY

Big Basin Sanitation Company filed Advice Letter 9-S on November 17, 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 sewer service by $3,254, or 8.87%, over current revenues in Test Year 2016 due to increased expenses and to earn a rate of margin of 21.28%.

This resolution grants a general rate increase of $394 or 1.00%, in Test Year 2016. This increase will provide a 22.75% rate of margin in the test year.

BACKGROUND

Big Basin Sanitation Company (Big Basin), a sewer 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 $3,254, or 8.87% in Test Year (TY) 2016, and a rate of margin (ROM) of 21.28%. The last general rate case (GRC) became effective on November 6, 2008 pursuant to Resolution (Res.) W-4720, which authorized a general rate increase of $15,739, or 75.20%, and a ROM of 20%. The present rates became effective on December 18, 2015, by approval of Advice Letter (AL) 10-S, which authorized a Consumer Price Index-Urban increase of $293, or 0.8%.

Big Basin is a sewer utility that currently serves 29 flat-rate customers in the Big Basin Woods Subdivision, Tracts 410 and 450, located approximately 3 miles northeast of Boulder Creek on Big Basin Highway, in Santa Cruz County.

NOTICE AND PROTEST

A notice of the proposed GRC was mailed to each customer and to the general service list on January 25, 2016.

The public meeting was held on February 24, 2016 at 6:30 PM at the Boulder Creek Golf and Country Club located at 16901 Big Basin Highway, Boulder Creek, CA to discuss the pending GRC for Big basin. There was one customer in attendance. Mr. Jim Moore, owner of Big Basin, addressed service questions. The meeting was then opened up to questions and comments. Comments focused on the size of the proposed rate increase. There were no complaints about sewer service. No protest letters were received by the Division of Water and Audits (DWA).

In setting rates for this resolution, the Commission has balanced the financial requirements of Big Basin with the rate concerns of its customers.

DISCUSSION

In reviewing Big Basin's rate increase request, DWA made an independent analysis of Big Basin's operations. Appendix A of this resolution shows Big Basin's and DWA's estimated summary of earnings at present, proposed, and recommended rates for TY 2016.

Big Basin 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.

Revenues

The difference between Big Basin's present revenues of $36,671 and DWA's present revenues of $39,606 is due to arithmetic errors made by Big Basin.

Expenses

DWA reviewed Big Basin's estimated 2016 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 Big Basin's operating expenses for TY 2016 is based on DWA's analysis of Big Basin's operations and expense data from the years 2012 through 2014, except for expenses relating to purchased power, professional services, and regulatory Commission expense.

The difference for the purchased power expense between Big Basin's estimate of $1,979 and DWA's estimate of $2,004 is due to DWA's use of the current power rates that became effective January 23, 2016. Big Basin now agrees.

Big Basin's professional services expense of $2,787 includes $387 of accounting fees and $2,400 for regulatory affairs consultant fees. DWA recommends $387 for the accounting fees and includes it in the professional services expense category. DWA also recommends $2,400 for the regulatory affairs consultant fees and includes it in the regulatory Commission expense category. Big Basin now agrees.

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

Rate Base

There are no differences between Big Basin's 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

[1] D.92-03-093. March 31, 1992.

[2] ibid, p.37.

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 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 2016 for a Class D water utility is 22.75%. Although the guidelines are related to water utilities, DWA believes they are appropriate for sewer utilities.

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 $40,000 compared to the ROR method which produces $33,480. Based on current rates, Big Basin's annual revenue for TY 2016 is $39,606. At the recommended ROM of 22.75%, the increase in revenue will be $394 or 1.00% for TY 2016.

Rates

Big Basin's current rate structure consists of one schedule: No.1, General Residential Service.

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 $113.81 to $114.94 or 1.00% in TY 2016. 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 sewer service served by the utility meets all applicable quality standards set forth by the California Regional Water Quality Control Board. Big Basin pays the Commission User Fees and files its Annual Reports regularly. There are no other outstanding Commission orders.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. According, pursuant to PU Code Section 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

FINDINGS

1. The present rates became effective on December 18, 2015, by approval of Advice Letter 10-S, which authorized a Consumer Price Index-Urban increase of $293, or 0.8%.
2. The Division of Water and Audits' recommended summary of earnings (Appendix A) is reasonable and should be adopted.
3. The rates proposed by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.
5. Big Basin Sanitation Company is in compliance with the quality standards set forth by the California Regional Water Quality Control Board.
6. The sewer rate increase authorized herein is justified and the resulting rates are just and reasonable.

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DWA

THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Big Basin Sanitation 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. 1, General Residential Service. The effective date of the revised schedules shall be five days after the date of filing.

2. 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 May 26, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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Resolution W-5097 **May 26, 2016**
DWA

APPENDIX A

BIG BASIN SANITATION COMPANY
Summary of Earnings - Test Year 2016

	Utility Estimated Rates		Division Estimated Rates	Recommended Rates
	Present	Proposed	Present	
Operating Revenues				
Flat Sewer Revenue	$36,671	$39,925	$39,606	$40,000
Total Revenue	**36,671**	**39,925**	**39,606**	**40,000**
Operating Expenses				
Purchased Water	0	0	0	0
Purchased Power	1,979	1,979	2,004	2,004
Other Volume Related	2,043	2,043	2,043	2,043
Employee Labor	3,126	3,126	3,126	3,126
Materials	325	325	325	325
Contract Work	2,393	2,393	2,393	2,393
Transportation Expenses	940	940	940	940
Other Plant Maintenance	2,251	2,251	2,251	2,251
Office Salaries	2,104	2,104	2,104	2,104
Management Salaries	5,110	5,110	5,110	5,110
Employee Pensions and Benefits	3,069	3,069	3,069	3,069
Uncollectibles	474	474	474	474
Office Services and Rentals	181	181	181	181
Office Supplies and Expenses	352	352	352	352
Professional Services	2,787	2,787	387	387
Insurance	935	935	935	935
Regulatory Commission Expense	0	0	2,400	2,400
General Expense	1,423	1,423	1,423	1,423
Total Expenses	29,492	29,492	29,517	29,517
Depreciation	213	213	213	213
Taxes Other Than Income	1,224	1,224	1,224	1,224
Income Taxes	1,541	2,029	1,978	2,037
Total Deductions	**32,470**	**32,958**	**32,932**	**32,991**
Net Revenue	**4,201**	**6,967**	**6,674**	**7,009**
RATE BASE				
Utility Plant	86,915	86,915	86,915	86,915
Construction work in progress	0	0	0	0
Materials & Supplies	0	0	0	0
Working Cash	0	0	0	0
Accumulated Depreciation	82,343	82,343	82,343	82,343
Advances for Construction	0	0	0	0
Contributions in Aid of Constr.	0	0	0	0
Contributions	0	0	0	0
TOTAL RATE BASE	**4,572**	**4,572**	**4,572**	**4,572**
Rate of Return	**-**	**-**	**-**	**-**
Rate of Margin		**21.28%**		**22.75%**

END OF APPENDIX A

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APPENDIX B

BIG BASIN SANITATION COMPANY
Schedule No. 1
GENERAL RESIDENTIAL SERVICE
TEST YEAR 2016

APPLICABILITY

Applicable to all residential sewer service.

TERRITORY

The area known as Big Basin Woods Subdivision, Tracts 410 and 450, located approximately 3 miles northeast of Boulder Creek on Big Basin Highway, in Santa Cruz County.

RATES

	Per Month	
All sewer connections	$114.94	(I)

SPECIAL CONDITIONS

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

2. A $1.59 bill surcharge shall be applied to each customer's monthly water bill to amortize the Purchased Power Balancing Account. The surcharge shall be separately identified on each bill and in place for a period of 12 months or until $552.41 is fully collected starting November 2015.

END OF APPENDIX B

APPENDIX C

BIG BASIN SANITATION COMPANY

Comparison of Flat Rates - Test Year 2016

Present Rate	Recommended Rate	% Increase
$113.81	$114.94	1.00%

END OF APPENDIX C

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APPENDIX D

BIG BASIN SANITATION COMPANY

Adopted Quantities - Test Year 2016

1. Federal Tax Rate: 15% for 1st $50,000 of taxable income

2. State Tax Rate: 8.84%

3. Service Connections: 29 Flat Rate Customers

4. Property Taxes: $1,224

5. Contract Work: $2,393

6. Purchased Power $2,004

7. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	$40,000	$ 40,000
2.	Expenses	$29,517	$ 29,517
3.	Taxes Other Than Income Taxes	$ 1,224	$ 1,224
4.	Depreciation	$ 213	$ 213
5.	State Taxable Income	$ 9,046	
6.	State Income Tax (@8.84% or $800 minimum)	$ 800	
7.	Federal Taxable Income		$ 8,246
8.	Federal Income Tax (15%)		$ 1,237
9.	TOTAL INCOME TAX		$ 2,037

END OF APPENDIX D

Big Basin Sanitation Company

Service List for Advice Letter No. 9

CA Regional Water Quality Control
Central Coast Region
Monitoring and Reporting Section
895 Aerovista Place, Suite 101
San Luis Obispo, CA 93401

Santa Cruz County
Public Works Department
Sanitation Districts
701 Ocean Street
Santa Cruz, CA 95060

Jack Hawks
California Water Association
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