



June 14, 2016

Proposed Resolution W-5098

Agenda ID: 14982

To: All Interested Persons

Enclosed is Proposed Resolution W-5098 of the Division of Water and Audits, which authorizes California Hot Springs Water and Sewer Company a general rate increase producing additional annual revenues of \$5,613, or 58.46%, for water services and \$7,246, or 75.46%, for sewer services for Test Year 2015. Proposed Resolution W-5098 is scheduled to appear on the **July 14, 2016** Commission Meeting Agenda (ID#14982).

The Commission may act on this resolution or it may postpone action until later. When the Commission acts on a proposed resolution, the Commission may adopt all or part of the proposed resolution, as written, or amend or modify the proposed resolution; or the Commission may set the proposed resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on Proposed Resolution W-5084 via email to Water.Division@cpuc.ca.gov on or before **July 5, 2016**. Please reference **"Proposed Resolution W-5098" in the subject line.**

Interested persons must also serve a copy of their comments on the utility on the same date that the comments are submitted to the Division of Water and Audits. If email is unavailable, please submit comments to:

California Public Utilities Commission
Division of Water and Audits
505 Van Ness Avenue
San Francisco, CA 94102

Comments should focus on factual, legal, technical errors, or policy issues in the proposed resolution.

Persons interested in receiving comments submitted may contact the Division of Water and Audits at Water.Division@cpuc.ca.gov or (415) 703-1133. Please reference **"Proposed Resolution W-5098."**

/s/RAMI S. KAHLON

Rami S. Kahlon, Director
Division of Water and Audits

Enclosures: Proposed Resolution W-5098
Certificate of Service
Service List

PROPOSED RESOLUTION

AGENDA ID# 14982

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5098

July 14, 2016

RESOLUTION

(RES. W-5098) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY. ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUES OF \$5,613, AN INCREASE OF 58.46% FOR WATER SERVICES AND \$7,246, AN INCREASE OF 75.46% FOR SEWER SERVICES FOR TEST YEAR 2015.

SUMMARY

By Advice Letter 15-W and Advice Letter 10-S, filed on April 15, 2015, California Hot Springs Water and Sewer Company requests increases of \$12,263, or 127.7% over annual gross revenue for water service, and \$12,263, or 127.7% over annual gross revenue for sewer service for Test Year 2015. California Hot Springs Water and Sewer Company also requests establishment of a water Facilities Fee and a water and sewer Late Fee, and requests increasing the water Reconnection Fee.

For Test Year 2015, this Resolution authorizes an increase of \$5,613, or 58.46% over revenues earned under current rates for water service, and an increase of \$7,246, or 75.46% over revenues earned under current rates for sewer service. These increases are estimated to provide a Rate of Margin of 21.34%. This Resolution also authorizes Facilities Fees of \$3,000, \$5,000, and \$7,500, for 5/8" x 3/4," 3/4," and 1" water meters, respectively, and Late Fees of 1.5 % for unpaid water and sewer service balances. Lastly, this Resolution authorizes an increase of 50% for Reconnection Fees, resulting in rates of \$15 and \$23 for reconnection of water and sewer service during working and nonworking hours, respectively.

California Hot Springs Water and Sewer Company has not implemented a rate increase in five years and has been operating at a negative net revenue and Rate of Margin, thus resulting in a significant rate increase for both the water and sewer systems.

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BACKGROUND

By Advice Letter (AL) 10-S and AL 15-W, California Hot Springs Water and Sewer Company (CHS), a Class D water and sewer utility, 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 revenues for water service by \$12,263, or 127.7%, and to increase sewer service by \$12,263, or 127.7%, over current rates for Test Year (TY) 2015.

The last General Rate Case (GRC) for CHS became effective on February 2, 2012, pursuant to Resolution W-4901, which authorized an increase in revenues of \$8,118 or 83.46% for water services, and \$8,784 or 90.31% for sewer services. Due to unreliable water use data, in W-4901, the Commission ordered CHS to implement an interim flat rate and file a Tier 3 Advice Letter (AL) the following year to establish metered rates. CHS neglected to put the interim flat rate in place, but did record water usage for a year. On February 22, 2013, CHS filed AL 14 requesting to implement metered rates. However, CHS filed AL 14 improperly as a petition for modification of W-4901, as opposed to a Tier 3 AL, as directed by the Commission in W-4901. Thus, the Water Division (WD) rejected without prejudice CHS's AL 14 on the basis that AL 14 was filed incorrectly. Following the rejection of AL 14, CHS did not implement the rates approved in W-4901 and CHS did not re-file an AL requesting the implementation of metered rates.

Therefore, the present rates currently charged by CHS became effective on December 30, 2011, by approval of AL 12-W and AL 8-S, which authorized a Consumer Price Index (CPI) rate increase of \$291.44 for water services, and \$224.36 for sewer services, or 1.5%, over Test Year 1996 rates established in Resolution (Res.) W-4008.

CHS is owned by Ronald Gilbert, who manages and maintains both the sewer and water systems. CHS provides water and sewer service to the community of California Hot Springs and its vicinity, which is located approximately 25 miles southeast of Porterville in Tulare County. CHS's domestic water supply permit states that CHS is a transient non-community system¹. CHS provides regulated potable water service to 29 service connections, of which 26 are CHS ratepayers and the remaining three are owned and paid for by Mr. Gilbert, and sewer service to 27 connections, of which 25 are CHS ratepayers and the remaining two are owned and paid for Mr. Gilbert.

¹ Water Code §116275 defines a transient non-community water system as a non-community water system that does not regularly serve at least 25 of the same persons over six months per year.

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CHS's water system is supplied by a set of two developed springs, an east set (Springs 01) and a west set (Springs 02). Water from Springs 01 flows into catchment basins, and is subsequently pressurized by a 1.5 HP pump to supply hot water at approximately 120°F to 26 CHS ratepayers as well as an R.V. site, a resort including pools and spas, and a bottling plant, all owned by Mr. Gilbert. From there, excess water is stored in a wood storage reservoir. Water stored in the wood reservoir provides water to several connections owned by Mr. Gilbert. Overflow from the wooden reservoir is stored in a PVC storage tank, which provides water to the ratepayers. Water from Springs 02 provides hot water at approximately 120°F to five properties owned by Mr. Gilbert.

For CHS's sewer system, a packaged aeration plant is situated at the lowest point in CHS's service territory to collect and treat wastewater. The wastewater treatment facility treats domestic wastewater from 25 CHS ratepayers as well as two connections owned by Mr. Gilbert. The treated effluent is pumped to a higher elevation and is sprayed on a set of ponds, where the effluent percolates and evaporates. The remaining sludge is hauled off annually to the Tulare County treatment plant.

NOTICE AND PROTESTS

This GRC is an outreach filing². AL 10-S, AL 15-W, and the corresponding workpapers were prepared internally by WD staff. The proposed rate increase is based on CHS's expenses reported in their 2014 Annual Report, escalated to TY 2015 dollars using inflation factors issued by the Office of Ratepayers Advocates (ORA)³. In accordance with G.O. 96-B, CHS properly filed AL 10-S and AL 15-W on April 15, 2015. A notice of the proposed rate increase was mailed to CHS's customers on May 29, 2015.

WD staff received 10 protests, six phone calls, and several petitions from CHS customers. The letters and e-mails protest AL 10-S and AL 15-W on the grounds that (1) the utility did not properly serve or give notice of the advice letter, (2) the analysis, calculations, or data in the advice letter contain material errors or omissions, and (3) the relief requested in the advice letter is unjust and unreasonable.

² An outreach filing is an AL filing that WD staff prepares for a Class D utility. In the event that a Class D utility does not have financial means or the knowledge required to file an AL, WD staff will draft an advice letter and corresponding workpapers on the utility's behalf and send the draft to the utility for confirmation. Once the utility is in concurrence with the proposed AL, the utility will sign the AL and send it to WD for analysis. Once WD has reviewed the AL, WD will approve the AL, reject the AL, or reject the AL without prejudice.

³ See, ORA December Escalation Memos for 2014

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CHS customers cited additional concerns. CHS customers stated that the water pressure is inadequate and would be insufficient in the event of a fire. CHS customers also had service quality complaints as well, stating that the utility owner often fails to give notice when shutting off the water and doesn't provide a reliable way for customers to contact him. Lastly, CHS customers stated that the utility owner provides water and sewer service to connections he owns at a cost to the ratepayers.

CHS customers recommend rejection of AL 10-S and AL 15-W for the following reasons:

- 1) CHS customers were not given sufficient due process since several customers were not notified of the increase;
- 2) CHS's reported expenses given in their Annual Reports are intermingled with expenses from affiliated companies and do not accurately reflect the cost of service to customers; and
- 3) CHS customers have severe financial limitations.

Upon review, WD found that CHS included some expenses from their affiliated companies in their Annual Reports, so WD adjusted CHS's operating expenses accordingly. WD staff also extended the protest period to allow time for CHS customers to protest. In consideration of CHS customers on limited fixed incomes, WD staff determined that low-income rates would be extremely difficult due to a small customer base. WD's proposed rate design balances the financial requirements of CHS with the rate concerns of its customers.

No public meeting was held. WD staff determined that a public meeting was unnecessary, since no meeting was requested. Nevertheless, WD staff spoke with multiple CHS customers and encouraged comments and suggestions.

DISCUSSION

CHS has been operating at significant negative net revenues and a negative Rate of Margin, as shown in Appendix A, because CHS has been charging their customers escalated rates initially authorized in 1996, pursuant to W-4008, rather than the rates authorized by the Commission in 2012 by of W-4901. Therefore, the rate increase being authorized herein is large in order to bring CHS up to the authorized Rate of Margin.

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WD analyzed CHS's operating expenses and investigated CHS's accounts. Appendix A shows CHS's and WD's estimated summary of earnings at present, proposed, and recommended rates for TY 2015. Appendix B contains tariff sheets amended to reflect the recommended rates.

In general, WD escalated the recommended expenses proposed in Resolution W-4901 to TY 2015 dollars, determined the portion of the escalated expenses payable by ratepayers, and verified these estimates against invoices, Annual Reports, and other means of analysis. WD staff disagreed with several of CHS's requested operating expenses. CHS has been informed of such differences and agrees with WD's findings.

Operating Expenses

CHS charges 26 ratepayers for water service, and 25 ratepayers for sewer service, as the rest of the connections are owned by Mr. Gilbert and a portion of the costs borne by him. The expenses proposed in this resolution reflect the customers' portion of use from CHS's water and sewer systems and not the properties owned by Ronald Gilbert.

Purchased Water Expense

In CHS's 2014 Annual Report, CHS reported purchased water expenses of \$14,108 for the water system. CHS explained that it cost \$14,108 to acquire 6,412,320 gallons of water from an affiliated company in 2014, even though ratepayers only used 623,466 gallons in 2014. CHS states that the discrepancy between the quantity of purchased water and the quantity of sold water is due to constant pumping of hot water from the springs directly to ratepayers, since no ratepayers have installed hot water heaters in their homes.

Though CHS states that they must run hot water constantly to deliver hot water to their ratepayers, pumping water continuously wastes water, uses excessive power, and shortens the life of the pumps used. Due to the configuration of CHS's system, the provision of hot water cannot be feasibly supplied to all customers without continuous pumping and heat loss to customers at the end of the hot water main. Furthermore, CHS's Tariff Schedule filed with the Commission does not specify that CHS has to supply its customers with hot water directly from the springs. Although WD recognizes that several CHS ratepayer homes are not installed with hot water heaters, requiring CHS to provide hot water is inefficient, costly, and is contrary to the CPUC's

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commitment to water and energy conservation. Therefore, WD recommends that CHS no longer provide hot water to its service territory.

WD disagrees with CHS's purchased water expense. According to Rule 9 of Standard Practice U-21-W, "Water Utility's parent and affiliates shall not acquire water utility assets if such transfers of assets would impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner. All transfers must be approved by Commission decision per Public Utilities Code §851". WD finds that the sale of water to CHS from an affiliate is not efficient or prudent, and therefore recommends a purchased water expense of \$0.

CHS has been notified of such changes and agrees.

Purchased Power Expense

WD determined that the purchased power expense should reflect the quantity of purchased water consumed by CHS ratepayers. Using CHS's Southern California Edison bills from 2014 and 2014 water consumption data, WD estimated the portion of the purchased power expense that should be charged to water service ratepayers. Since no sewer usage data is available, WD estimates that CHS ratepayers contribute approximately 50% of wastewater to CHS's sewer system each day. WD estimated the CHS ratepayer wastewater use by comparing typical wastewater flows of older homes to SWRCB's estimated daily average wastewater flows for CHS's sewer system during wet and dry periods.

Therefore, approximately 50% of CHS's purchased power expense should be covered by CHS ratepayers. WD estimates purchased power expenses of \$333 and \$1,046 for the water and sewer systems, respectively.

CHS has been notified of such changes and agrees.

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Operating Revenue and Rate Design

In accordance with the Commission's ratemaking policy adopted by Decision (D.) 92-03-093, 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.⁴ D. 92-03-093 directs WD 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.⁵ WD determined that the ROM method produced the higher revenue requirement and therefore recommends that the ROM method be used for CHS' TY 2015 GRC.

For 2015, WD's recommended ROM for a class D water utility is 21.34%.⁶ WD's analysis was therefore based on a ROM of 21.34%. Using this ROM, WD calculates a revenue requirement of \$15,215 and \$16,848 for CHS's water and sewer services, respectively.

Water Service

Standard Practice U-7-W (p. 4) provides that Class D utilities are allowed to recover up to 100% of fixed costs in the service charge. However, allocating 100% of the fixed charges to CHS water customers significantly increases minimum monthly bills which will burden low and fixed income customers. By comparison the increase in volumetric charges would be moderate. In order to provide a balance between fixed and volumetric charges, WD staff recommends that 85% of fixed charges be recovered in the service charge, and 15% be allocated to volumetric charges. Based on a 85% fixed cost recovery, the water service charge would be \$38.31/month for a 3/4" metered customer and the volumetric charge would be \$23.46/CCF.

CHS's current rate structure for water service consists of two tariff schedules: Schedule No. 1, Metered Service, and Schedule No. UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee. At WD's recommended rates shown in Appendix B, the monthly water bill for an average metered customer will

⁴ 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.

⁵ D. 92-03-093, Ordering Paragraph 8.

⁶ 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>.

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increase from approximately \$29.81 to \$48.70, which is an increase of \$18.89, or 63.4%. 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.

AL 15-W also requests the establishment of Schedule No. F, Facilities Fees. For 5/8" x 3/4", 3/4", and 1" meters, AL 15-W requests Facilities Fees of \$3,000, \$5,000, and \$7,500, respectively. Such fees are reasonable and comparable to other nearby Class D utilities.

In addition, AL 15-W requests a late fee of \$30.00 on unpaid balances. After AL 15-W was filed on April 15, 2015, CHS requested that the late fee be changed to 1.5% of the unpaid balance. WD staff finds CHS's requested modification reasonable.

Lastly, CHS requested that Rule 11, Section C, Restoration of Service, be modified to increase the reconnection fee from \$10.00 during working hours and \$15.00 during non-working hours, to \$250.00. Since many CHS customers are seasonal customers, WD staff found CHS's requested increase unjust and unreasonable. Since the reconnection fees became effective April 7, 1997, WD staff proposes escalating the reconnection fees to TY 2015 dollars, resulting in fees of \$15.00 and \$23.00 for working and non-working hours, respectively. CHS has been informed of such differences and agrees with WD's recommendation.

Sewer Service

CHS bills sewer service as a flat rate to its customers since no meters for sewer service are in place. At WD's recommended rates shown in Appendix B, the monthly sewer bill for an average metered customer will increase from approximately \$36.24 to \$56.16, which is an increase of \$19.92, or 55.0%. 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.

Like CHS's water services, CHS's current rate structure for sewer service consists of two tariff schedules: Schedule No. 1, General Residential Service, and Schedule No. UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee. WD's recommended rates will result in changes to Schedule No. 1 as given in Appendix B.

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AL 10-S also requests a late fee of \$30.00 on unpaid balances. CHS requested that the late fee be changed to 1.5% of the unpaid balance after AL 10-S was initially filed. WD staff finds CHS's requested modification reasonable.

Lastly, in order to bring CHS's sewer service in compliance with CPUC standards, CHS should update its sewer tariff book with all the necessary rules to meet current commission standards.

SAFETY, COMPLIANCE, AND WATER CONSERVATION

User Fees

CHS is up to date on its User Fee payments to the CPUC.

Water Quality

In accordance with the California Code of Regulations, Sections 64400 and 64401.85, CHS is defined as a Transient Non-Community Water System, which is not required by law to be operated by a certified operator. Additionally, since CHS is a transient water system, potable water supplied by CHS must be tested for secondary constituents, such as alkalinity and hardness, only once. The State Water Resources Control Board's (SWRCB) Division of Drinking Water (DDW) mandates that CHS must test its potable water for nitrite every three years and nitrate annually. DDW also mandates that CHS must submit a water sample every quarter to test for Total Coliform and E. coli bacteria. WD staff contacted DDW and DDW staff reported that CHS's potable water supply meets nitrate, nitrite, and bacteriological standards.

Wastewater Quality

On November 18, 1997, SWRCB issued Water Quality Order No. 97-10-DWQ, outlining general waste discharge requirements for discharges to land by small domestic wastewater treatment systems. On March 8, 2011, CHS submitted an application requesting coverage of its discharge under 97-10-DWQ. SWRCB approved CHS's request and sent CHS a Notice of Applicability on May 23, 2011.

The Notice of Applicability issued by SWRCB states that in accordance with Order 97-10-DWQ, CHS must monitor its activated sludge systems and aerated pond systems. For

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influent monitoring for both systems, CHS must submit flow rates (gals/day) daily, and 20°C BOD5 results (mg/l) and total suspended solids test results (mg/l) monthly. For effluent monitoring for both systems, CHS must submit 20°C BOD5 results (mg/l), total suspended solids test results (mg/l), nitrate results (mg/l), total nitrogen results (mg/l), and total coliform results (MPN/100 ml), all on a weekly basis.

WD staff contacted the California Regional Water Quality Control Board (RWQCB) on June 23, 2015. RWQCB staff reported that CHS has not been complying with the requirements of 97-10-DWQ. Additionally, at the time, RWQCB reported that CHS had not hired a certified operator to oversee the sewer system, even though CHS is required to do so.

As of October 2015, CHS has complied with some of the RWQCB wastewater testing requirements. CHS has hired a Grade 3 Treatment Operator to oversee the sewer system. CHS estimates that under the RWQCB 97-10-DWQ requirements, their operating expenses will increase by approximately \$37,268 per year for wastewater testing costs, transportation costs, clerical labor, field labor, and treatment operator expenses.

In accordance with Standard Practice U-27-W (pages 4-5), CHS may file a Tier 1 AL to request an expense offset⁷. Under the items eligible for recovery through an expense offset, CHS should file a Tier 1 Advice Letter to request an expense offset for labor and treatment operator expenses associated with RWQCB wastewater testing requirements.

Similarly, in order to recover wastewater testing costs, WD staff recommends that CHS record the wastewater testing costs in the Water Quality Balancing Account. After a year of incurring wastewater testing costs, CHS may file a Tier 2 AL to implement a surcharge on its sewer rates to recover the costs incurred in the balancing account.

Water and Sewer System Infrastructure

Several CHS customers reported in their protests and comments that (1) the water pressure is insufficient and falls below 40 psi, which is the minimum operating pressure required as per General Order 103-A, Section VII (6), (2) the current water pressure

⁷ Standard Practice U-27-W (p. 3-5) defines an expense offset as a change in rates that allows a utility to pass on to the customers changes in certain costs that are considered to be beyond the utility's control and that are in the public interest to allow the utility to recover. Categories of expenses that are eligible to be offset include, for all water and sewer system utilities, are purchased power, purchased water, and groundwater extraction charges (pump taxes). In addition, Class C and D utilities may request an expense offset for employee labor, payroll taxes, and unanticipated repair costs. Lastly, only Class D utilities are eligible to request an expense offset for a portion of contract work used for the operation and maintenance of plant facilities.

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would be insufficient in the event of a fire, (3) the temperature of the water is inconsistent and the potable water pipes require proper insulation, (4) outages occur without notice to CHS ratepayers, and (5) several sewer lines are leaking.

According to CHS's annual reports, CHS's water and sewer plants have fully depreciated. Nevertheless, based on WD staff's field inspection, CHS's potable water piping infrastructure has not deteriorated and contains little to no leakage. WD staff's field inspection did not include CHS's sewer system. WD staff refers to the field inspection conducted during CHS's previous GRC, W-4901, effective February 1, 2012. In W-4901, WD staff stated that the sewer system had reached the end of its useful life, but the owner had begun replacing most of the sewer pipeline. However, it was noted in the Staff's inspection in W-4901 that not all the sewer pipelines had been replaced. Several CHS customers have reported that the sewer pipelines leak, which poses a potential cross-contamination hazard.

To address customer comments regarding water pressure, outages, and potential cross-contamination, WD determined that the SWRCB is the appropriate governmental agency with the authority to levy violations and penalties to CHS. WD notified SWRCB of the customer comments and protests WD had received, and forwarded SWRCB contact information to CHS ratepayers. WD directed CHS customers to contact the SWRCB's DDW in the event of inadequate water pressure, lack of notice prior to shut off, and inadequate infrastructure. DDW has since visited CHS and inspected CHS's facilities. DDW subsequently contacted WD and stated that they will be issuing a Sanitary Survey Report within the next several weeks detailing their survey of CHS's water supply facilities and operations. The Sanitary Survey Report will also identify inadequacies with CHS's water system and will request CHS to submit plans for improvement if DDW finds that improvements are needed or if further investigation is required.

If the SWRCB determines that significant improvements are required for CHS's water and sewer systems, CHS may file a Tier 3 AL in accordance with Standard Practice U-27-W requesting a rate base offset once the added plant is used and useful⁸. Should CHS file a Tier 3 AL requesting a rate base offset, CHS's filing should include all invoices for the project, or, if that would be too voluminous, a listing of the invoices by date paid, company, and service provided with individual amounts, interest accrued, and the total requested.

⁸ Standard Practice U-27-W states that a rate base offset allows the utility to adjust its rates to account for a change in utility plant in service that affects rate base. The rate base offset includes adjustments to associated expenses, such as depreciation, taxes, and to charges, such as franchise taxes and uncollectibles, that depend on gross revenues.

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Furthermore, as WD staff recommended in Resolution W-4901, CHS should hire a consultant to provide an assessment of upgrades to its water plant in order to provide reliable and safe service. CHS should record costs incurred with the consultant under its Contract Labor Memorandum Account⁹. When the balance exceeds 2% of the most recently authorized revenue requirement, CHS should file a Tier 3 AL to request amortization of the Contract Labor Memorandum Account. When CHS files for amortization of this expense, CHS shall have the burden of proving that: (1) the costs recorded in the memorandum account have not been recovered through otherwise authorized rates; (2) recovery of the types of costs recorded in the account is appropriate; (3) the utility acted prudently when it incurred these costs; and (4) the level of costs is reasonable

CHS Service Quality

CHS does not meet General Order 103-A's Telephone Performance Standards, as outlined in Section VIII (3). CHS does not have emergency telephone access, after-hours access, or a message recording device for customers. WD staff recommends that CHS purchase an answering machine and provide a phone number to CHS customers in the event of an emergency.

Water Supply and Conservation

Despite the drought, CHS has an adequate supply of water. Ronald Gilbert stated that for the past several years, CHS has been receiving a consistent volume of water from the springs.

In light of the drought, on May 7, 2015, the CPUC issued Resolution W-5041, Resolution Ordering Water Utility Compliance with the Restrictions Set Forth Herein to Achieve a 25% Reduction in Potable Urban Water Use Consistent with Restrictions Imposed by the State Water Resources Control Board's Resolution No. 2015-0032, Adopted May 5, 2015. Resolution W-5041 orders Class D utilities to take one or more of the following actions to achieve a 25% reduction in potable water consumption relative to the amount consumed in 2013:

- *Limit outdoor irrigation of ornamental landscapes or turf with potable water by the persons it serves to no more than two days per week; or*

⁹ W-4467, effective April 28, 2004, authorizes Class C and D water and sewer utilities to establish a memorandum account to track unanticipated changes, beyond the utility's control in contract work that is for operation and maintenance of the plant facilities.

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- *Implement another mandatory conservation measure or measures (e.g. file Tariff Rule 14.1 and add Schedule 14.1;*
And
- *Shall submit a report by December 15, 2015 to the Water Board, on a form provided by the Board that includes:*
(2) Total potable water production, by month, from June through November 2015 and total potable water production, by month, for June through November 2013.

CHS's customers are primarily seasonal users that use little to no water for outdoor irrigation. Therefore, in order to comply with Resolution W-5041, WD staff recommends that CHS file Tariff Rule 14.1 and add Schedule 14.1 to CHS's water tariff schedules, and submit a report to the SWRCB stating total potable water production by month from June to November for both 2013 and 2015.

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, the draft resolution was mailed to the utility, all protestants, and those requesting service, and made available for public comment on June 14, 2016.

CHS ratepayer comments have been incorporated into this resolution and addressed.

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FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Water Division is reasonable and should be adopted.
2. California Hot Springs Water and Sewer Company agrees with the Water Division's recommended Summary of Earnings (Appendix A).
3. The rates (Appendix B) recommended by the Water Division are reasonable and should be adopted.
4. California Hot Springs Water and Sewer Company agrees with the Water Division's recommended rate designs (Appendix B).
5. The late fees and facilities fees (Appendix B) recommended by the Water Division are reasonable and should be adopted.
6. California Hot Springs Water and Sewer Company agrees with the Water Division's recommended late fees and facilities fees (Appendix B).
7. The Water Division's recommended reconnection fees and adoption of sewer rules are just and reasonable.
8. The quantities (Appendix D) used to develop the recommendations of the Water Division are reasonable and should be adopted.
9. The water and sewer rate increases authorized herein are justified and the resulting rates are just and reasonable.
10. California Hot Springs Water and Sewer Company should no longer provide hot water to its service territory.
11. California Hot Springs Water and Sewer Company should provide adequate notice to customers before discontinuing the flow of hot water.
12. California Hot Springs Water and Sewer Company should hire a consultant to provide the Company with an assessment of upgrades to its water plant in order to provide reliable service. CHS should record costs incurred with the consultant

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under its Contract Labor Memorandum Account and file a Tier 3 Advice Letter requesting to implement a surcharge to recover the costs incurred in the Contract Labor Memorandum Account.

13. California Hot Springs Water and Sewer Company is complying with Water Quality Order 97-10-DWQ issued by the California Regional Water Quality Control Board. As a result, California Hot Springs Water and Sewer Company estimates that its sewer system expenses will increase by approximately \$37,268 annually.
14. In order to recover the increase in sewer system expenses due to compliance with Water Quality Order 97-10-DWQ, California Hot Springs Water and Sewer Company should file a Tier 2 Advice Letter requesting an expense offset for associated employee labor costs and contract labor costs related to the operation and maintenance of the sewer system, after a year of incurring such expenses. Similarly, in order to recover wastewater testing costs associated with Water Quality Order 97-10-DWQ, California Hot Springs Water and Sewer Company should record all testing costs in the Water Quality Balancing Account.
15. In light of the ongoing drought, California Hot Springs Water and Sewer Company should file a Tier 2 Advice Letter to request to add Rule 14.1 and/or Schedule 14.1 to its tariffs.

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July 14, 2016

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to California Hot Springs Water and Sewer Company to file a supplemental Advice Letter with the revised water and sewer rate schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective rate Schedules: Schedule No. 1 (Water), Metered Service, and Schedule No. 1 (Sewer), General Residential Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Authority is granted under Public Utilities Code Section 454 to California Hot Springs Water and Sewer Company to file a supplemental Advice Letter with the new water late fee schedule, the new water facilities fee schedule, and the new sewer late fee schedule. The new schedules are attached to this Resolution as Appendix B. The effective date of the schedules shall be five days after the date of filing.
3. Authority is granted under Public Utilities Code Section 454 to California Hot Springs Water and Sewer Company to file a supplemental Advice Letter adding all the applicable sewer rules to the sewer tariff schedules. The effective date of the schedules shall be five days after the date of filing.
4. 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 14, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

PROPOSED RESOLUTION

Resolution W-5098
WD

July 14, 2016

APPENDIX A CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Summary of Earnings – Test Year 2015

	Utility Estimated Rates		Branch Estimated Rates		
	Present	Requested	Water and Sewer Present	Water Recommended	Sewer Recommended
<u>OPERATING REVENUE</u>					
Metered Rate Water Sales	9,602	21,865	9,602	15,215	0
Flat Rate Sewer Sales	9,602	21,865	9,602	0	16,848
Subtotal	19,204	43,730	19,204	15,215	16,848
<u>OPERATING EXPENSES</u>					
610 Purchased Water	13,925	13,925	0	0	0
615 Purchased Power	5,216	5,216	1,379	333	1,046
618 Other Volume Related Expenses	148	148	199	32	166
630 Employee Labor	0	0	0	0	0
640 Materials	1,393	1,393	1,455	728	728
650 Contract Work - General	0	0	697	349	349
Water Testing	0	0	1,192	596	596
660 Transportation Expenses	2,725	2,725	1,405	702	702
664 Other Plant Maintenance	3,067	3,067	1,086	543	543
670 Office Salaries	0	0	0	0	0
671 Management Salaries	0	0	8,000	4,000	4,000
674 Employee Pensions & Benefits	0	0	0	0	0
676 Uncollectibles Expense	1,438	1,438	1,438	719	719
678 Office Services & Rentals	0	0	0	0	0
681 Office Supplies & Expenses	1,148	1,148	367	183	183
682 Professional Services	0	0	1,427	713	713
684 Insurance	871	871	2,562	1,281	1,281
688 Regulatory Commission Expense	3,604	3,604	1,892	717	1,175
689 General Expenses	118	118	605	302	302
Subtotal	33,652	33,652	23,705	11,200	12,505
Depreciation	0	0	0	0	0
Taxes Other than Income Taxes	807	807	807	403	403
Income Taxes	0	2,090	0	1,222	1,271
Interest	0	0	0	0	0
TOTAL DEDUCTIONS	34,459	36,549	24,512	12,825	14,179
NET REVENUE	-15,255	7,181	-5,308	2,390	2,669
<u>RATE BASE</u>					
Average Plant	62,443	62,443	62,443	62,443	62,443
Average Accumulated Depreciation	62,443	62,443	62,443	62,443	62,443
Net Plant	0	0	0	0	0
Less Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus Working Cash	4,798	4,798	3,721	1,811	1,910
Materials & Supplies	0	0	0	0	0
Rate Base	4,798	4,798	3,721	1,811	1,910
RATE OF MARGIN	-45.33%	21.34%	-22.39%	21.34%	21.34%

END OF APPENDIX A

PROPOSED RESOLUTION

Resolution W-5098
WD

July 14, 2016

APPENDIX B (Page 1/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on a monthly basis.

TERRITORY

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

RATES

Quantity Rate:

For all water, per 100 cubic feet	\$3.46
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Service Charge:

Per meter per month

For 5/8x3/4-inch meter	\$25.54
For 3/4-inch meter	\$38.31
For 1-inch meter	\$63.85

The Service Charge is a readiness-to-serve charge, which is applicable to all metered services, and to which is to be added to the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

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

(cont.)

PROPOSED RESOLUTION

Resolution W-5098
WD

July 14, 2016

APPENDIX B (Page 2/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service.

TERRITORY

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

RATES

	Per Service Connection
	Per Month
For a single family residence	<hr/>
	\$56.16

SPECIAL CONDITIONS

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

(cont.)

PROPOSED RESOLUTION

Resolution W-5098
WD

July 14, 2016

APPENDIX B (Page 3/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. LC

LATE PAYMENT CHARGE

APPLICABILITY

Applicable to all metered service.

TERRITORY

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

RATES

Late Charge: A late charge of 1.5% times the unpaid balance is subject to special conditions below.

SPECIAL CONDITIONS

1. The balance is unpaid and subject to a late charge if the bill is past-due, or delinquent, as defined in Rule No. 11, Section B.1.a.
2. The late charge should be imposed only once on a delinquent bill since the account would be shut-off before a subsequent bill and then subject to the reconnection fee as authorized by Tariff Rule No. 11.
3. All bills shall be subject to the reimbursement fee as set forth on Schedule No. UF.

(cont.)

PROPOSED RESOLUTION

Resolution W-5098
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July 14, 2016

APPENDIX B (Page 4/4) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Schedule No. F

FACILITIES FEE

APPLICABILITY

Applicable to all customers applying for service from the utility in the territory served not previously connected to its distribution mains, not disconnected for more than ninety days, or for additional service connections to existing premises, and for increase in size or change in use. The Utility may waive facilities fees for new connections not yet installed for which service has been committed by the Utility prior to the effective date of Schedule No. F.

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	\$3,000
For 3/4 inch meter	\$5,000
For 1 inch meter	\$7,500

SPECIAL CONDITIONS

1. Facilities Fees are payable in addition to and do not limit any charges for extension of mains that may be required under Rule 15, Main Extensions.
2. Payments made under this schedule are not subject to reimbursement as set forth in Schedule No. UF.
3. Facilities Fees shall be deposited within ten days of receipt in a separate interest bearing bank account.
4. Facilities Fees shall be treated as contributions in aid of construction and follow the requirements as specified in Internal Revenue Code Section 118 to qualify as such.
5. When actually used, Facilities Fees shall be accounted for as contributions in aid of construction in accordance with the Commission's prescribed Uniform System of Accounts. The plant constructed with Facilities Fees shall be excluded from rate base for rate making purposes.
6. The Utility shall annually report Facilities Fees collected, utilized, and the remaining account balance, including interest. This report shall accompany the submission of the Utility's Annual Report.

END OF APPENDIX B

PROPOSED RESOLUTION

Resolution W-5098
WD

July 14, 2016

APPENDIX C CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Comparison of Rates – Test Year 2015

METERED WATER SERVICE

Per meter per month

	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
For 5/8x3/4-inch meter	\$17.26	\$25.54	47.97%
For 3/4-inch meter	\$25.88	\$38.31	48.03%
For 1-inch meter	\$43.04	\$63.85	48.35%

WATER QUANTITY RATES

All water, per 100 cu. ft.

	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
	\$1.31	\$3.46	164.33%

FLAT RATE SEWER SERVICE

Per connection per month

	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
	\$36.24	\$56.16	54.96%

Comparison of a monthly typical bill for residential metered customer with a 3/4" meter and flat rate sewer service is shown below at current rates and recommended rates for TY 2015.

<u>Usage (Ccf)</u>	<u>Present Rates</u>	<u>Staff Recommended Rates</u>	<u>Percent Increase</u>
0	\$62.12	\$94.47	52.07%
1	\$63.43	\$97.93	54.39%
2	\$64.74	\$101.39	56.62%
3 (Avg)	\$66.05	\$104.86	58.75%
4	\$67.36	\$108.32	60.81%
5	\$68.67	\$111.78	62.78%

END APPENDIX C

PROPOSED RESOLUTION

Resolution W-5098
WD

July 14, 2016

APPENDIX D (Page 1/2) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Adopted Quantities – Test Year 2015

	<u>Water</u> <u>Per Year</u>	<u>Sewer</u> <u>Per Year</u>
1. Purchased Power		
Southern California Edison		
Quantity (kWh):	1,554	2,830
Average Cost (\$/kWh):	\$0.21434	\$0.36973
Total Purchased Power:	\$333	\$1,046
2. Purchased Water	\$0	\$0
3. Payroll		
Employee Labor:	\$0	\$0
Office Salaries:	\$0	\$0
Management Salaries:	\$4,000	\$4,000
4. Payroll Taxes	\$0	\$0
5. Property Taxes	\$403	\$403
6. Service Connections		
<u>General Water Metered Sizes</u>	<u>Number of Connections</u>	
5/8 x 3/4" meters:	0	
3/4" meters:	26	
1" meters:	0	
1-1/2" meters:	0	
Total Metered:	26	
<u>General Sewer Service</u>	<u>Number of Connections</u>	
Per Connection per month	25	
7. Water Sales (CCF)	942.16	0

(cont.)

PROPOSED RESOLUTION

Resolution W-5098
WD

July 14, 2016

APPENDIX D (Page 2/2) CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

Adopted Quantities – Test Year 2015

	Water	Sewer
1. Operating Revenue	\$15,215	\$16,848
2. Operating Expenses	\$11,200	\$12,505
3. Property Taxes	\$403	\$403
4. Payroll Taxes	\$0	\$0
5. Depreciation	\$0	\$0
6. Taxable Income for State Tax	\$3,612	\$3,939
7. State Tax (\$800 minimum)	\$800	\$800
8. Taxable Income for FIT	\$2,812	\$3,139
9. Federal Income Tax	\$422	\$471
10. Total Tax	\$1,625	\$1,674

Federal Tax Rate: 15% for 1st \$50,000 of Taxable Income
25% for next \$25,000 of Taxable Income
34% for next \$25,000 of Taxable Income
39% for next \$235,000 of Taxable Income

State Tax Rate: 8.84%

END 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-5098 on all parties in these filings or their attorneys as shown on the service list.

Dated June 14, 2016 at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Water Division, 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.

CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY

ADVICE LETTER NO. 15-W & 10-S SERVICE LIST

Frances Balcomb
P.O. Box 114
California Hot Springs, CA 93207
<mailto:>

Keith Farnsworth
P.O. Box 142
California Hot Springs, CA 93207

Lisa Ponzio
1760 Airline Highway
Hollister, CA 95023
ldponzio@razzolink.com

Jerry Akin
616 E. Henderson
Porterville, CA 93257

Dan Brown
P.O. Box 66
California Hot Springs, CA 93207

Keith Farnsworth
2427 E. Curtis Court
Glendora, CA 91741

Raymond Hackett
P.O. Box 133
California Hot Springs, CA 93207

Frances Peyton
11423 E. McKinley
Sanger, CA 93657

Chizuko Suehiro
1707 S. Corning Street
Los Angeles, CA 90035

City of Porterville
291 North Main Street
Porterville, CA 93257

California Hot Springs Water Co.
P.O. Box 146
California Hot Springs, CA 93207

U.S. Post Office
P.O. Box Office
California Hot Springs, CA 93207

Dennis Peyton
depeyton@hotmail.com

Tipaporn Boerger
10321 Sharktooth Peak Drive
Bakersfield, CA 93311

Bonnie Householder
9238 Garrin Road
Bakersfield, CA 93311
skieranch@gmail.com

Howard Stevens
3894 N. Lookout Canyon Road
Kingman, AZ 86401
joellenstevens@gmail.com

Frances Balcomb
4906 Buchanan Street
Los Angeles, CA 90042

Capineros
P.O. Box 35
California Hot Springs, CA 93207

Ernie and Renate Fellingner
530 N. Howard Street
Glendale, CA 91206

Raymond Hackett
7140 Rancho Verde Lane
Loomis, CA 95650

Punya Pussdee
2109 Via Sonata Road SE
Rio Rancho, NM 87124

Howard Stevens
P.O. Box 281
Ojai, CA 93024

CA Dept. of Public Health
Safe Drinking Water Program
P.O. Box 997377
Sacramento, CA 95899-7377

City of McFarland
401 West Kern Street
McFarland, CA 93250

Alex and Ann Chernabaeff
4412 Marella Way
Bakersfield, CA 93309

Jeff Duda
2716 Alvarado Drive
Bellingham, WA 98229
Jeff@janelbi.com

Chuck McFate
8735 Owens Street
Sunland, CA 91040
chuck.mcfate@hp.com

Del Oro Water Company, Inc.
Attn: Robert Fortino
robert@corporatecenter.us

Richard Bien and Sharon Kim
22145 Caminito Laureles
Laguna Hills, CA 92653

Celina Couture
P.O. Box 134
California Hot Springs, CA 93207

Hye Yang Flynn and Jung Kim
P.O. Box 122
California Hot Springs, CA 93207

Loretta Curti-Harper
2461 Dover Canyon Drive
Tulare, CA 93274

Eduarda Stevens
20357 Ave 148
Porterville, CA 93257

Sueng Min Yoon
2910 Ross Street
Vernon, CA 90058

CA Regional Water Quality Control Board
1685 E Street
Fresno, CA 93706

Health and Human Services Agency
Environmental Health Services Division
Attn: Charles Hemans
5957 South Mooney Boulevard
Visalia, CA 93277

Darrell Peyton
11265 E. McKinley Drive
Sanger, CA 93657