

# PROPOSED RESOLUTION

AGENDA ID #15049

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5101

August 18, 2016

### RESOLUTION

**(RES. W-5101) COBB MOUNTAIN WATER COMPANY. ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$7,713, OR 33.0%, FOR TEST YEAR 2016.**

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### SUMMARY

Cobb Mountain Water Company filed Advice Letter 41 on January 22, 2016, 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 \$6,212, or 26.56%, over current revenues in Test Year 2016 due to increased expenses and to earn an adequate return on investment.

This resolution grants a general rate increase of \$7,713, or 33.0%, using a Rate of Margin (ROM) of 21.69% for Test Year 2016. The difference between the amount requested and the amount authorized is due to applying the ROM method for calculating the utility's revenues, which results in a higher revenue requirement, as opposed to the utility's initial request to apply the Rate of Return (ROR) method.

### BACKGROUND

Cobb Mountain Water Company (CMWC), 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 \$6,212 or 26.56% in Test Year (TY) 2016, and a ROR of 11.80%. CMWC filed its last general rate case (GRC) through Advice Letter (AL) 39. By Resolution (Res.) W-4957, dated September 5, 2013, the Commission granted Cobb Mountain a general rate increase of \$5,526, or 31.80%, to provide a ROM of 22.08% for TY 2013. The present rates became effective on October 2, 2013, by approval of AL 39-A, filed in compliance with Res. W-4957.

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Cobb Mountain provides water service to 61 metered service connections in the service area one mile west of the town of Cobb, in Lake County. Cobb Mountain is owned and operated by Mr. Vincent Bruce Anderson.

Cobb Mountain's system consists of one spring, a forebay to contain the spring source, a treatment/pump house, and three storage tanks with a total capacity of 25,500 gallons. The pumps are kicked on automatically to send water to the storage tanks, and the service territory is supplied with gravity-fed water from the tanks. In Cobb Mountain's 2014 Annual Report, 64 connections were in place. However, Cobb Mountain currently has 61 customers that are mostly seasonal.

In September of 2015, Lake County endured a massive fire within the Cobb Mountain area, which burned for approximately two weeks. Cobb Mountain was minimally impacted and suffered approximately \$900 in damages. CalFire caused a minor impact on Cobb Mountain's system when backfiring the area, and a valve burned off one of Cobb Mountain's sampling sites during the fire. Nevertheless, Cobb Mountain was able to repair the damaged pipes quickly, and Cobb Mountain's system and service territory suffered significantly less damage compared to surrounding areas.

All homes on Cobb Mountain's system are metered. Cobb Mountain reported that they have an adequate supply of water and customers have responded positively to water conservation measures.

Cobb Mountain reported that Lake County has considered consolidating Cobb Mountain with ten other water utilities in the surrounding area. However, due to significant differences in the operation of each system, lack of infrastructure for interconnection, and the high likelihood of resistance from many of the utilities, Cobb Mountain contends that it will likely remain an independently operated water system.

### **NOTICE AND PROTESTS**

A notice of the proposed increase was mailed to all customers on April 30, 2016. In this public notice, all customers were informed of the 26.56% proposed increase and the new rates. Although the notice indicated a 26.56% proposed increase, the notice also stated the following,

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*“The CPUC staff make a thorough investigation of the utilities request in whole or in part or may deny it. It may also order the utility to charge rates different from those shown in the notice”*

As discussed below, in compliance with Res. W-4524 (March 17, 2005), this resolution authorizes CMWC to apply two different ratemaking methods to calculate its revenue requirement and utilize the method that grants the higher revenues. In this case, the ROM method grants the higher increase of 33% as compared to the 26.56% increase as stated in the notice.

No protests or comments were received from the notice to customers.

### **DISCUSSION**

The Water Division (Division) made an independent analysis of CMWC’s rate increase request. Appendix A shows CMWC’s and the Division’s estimates of the summary of earnings at present, proposed, and recommended rates. Appendix A also shows the difference in CMWC’s and the Division’s estimates in revenues. CMWC was informed of the Division’s views on revenues, expenses, and rate base and agrees with the Division’s findings.

The Division reviewed operating revenues and expenses, including employee labor, materials, contract work, water testing, transportation expenses, and other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

#### **Plant Additions and Ratebase**

CMWC’s last authorized rate base was \$26,579 as authorized by Res. W-4957. CMWC has added \$5,975 in new plant investment since its last authorized GRC through the end of 2015, and estimates that an additional \$1,000 of new plant investment will be added within the next year. CMWC’s estimated a rate base of \$33,554 for TY 2016. However, this estimate did not account for the most recently reported amounts for both water plant in service and reserve for depreciation of utility plant.

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## Division's Determination of Ratebase

Based on the 2015 Annual Report filed by CMWC, the Division calculated ratebase as follows:

Water Plant in Service as of January 1, 2015:	\$57,953
Water Plant in Service as of December 31, 2015:	\$59,606
Average Water Plant in Service (2015):	<b><u>\$58,780</u></b>
Reserve for Depreciation of Utility Plant:	(\$29,681)
Total Rate Base:	<b><u>\$29,099</u></b>

In this case, the Division estimates a rate base of \$29,099 for TY 2016.

## Rate of Return (ROR) vs. Rate of Margin (ROM)

CMWC has requested a ROR of 11.80%. Two methods are available for the Division to utilize in the rate-making process: (1) ROR and (2) ROM. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the ROR and ROM methods. Both methods are to be used. Per Decision 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the ROM method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the ROM. 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". If only the ROR method was used, a utility with little or no rate base would earn little or no return.

At an estimated recommended rate of return of 11.80%, the maximum of recommended rates of return for a Class D water utility, the resulting revenue requirement would be \$29,302. Using the ROM method, the Division recommends a ROM of 21.69% for Class D water utilities. A comparison of the two methods indicates that the ROM method produces a revenue requirement for CMWC of \$31,105; therefore, the Division recommends the ROM method using a ROM of 21.69%.

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At the Division's recommended rates shown in Appendix B, the average bill for a 5/8 x 3/4-inch metered residential customer using 11 CCF per year would increase from \$336.88 to \$477.20, or 41.7%. 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.

### Bad Check Charge

CMWC has requested to implement a Bad Check Charge in its tariffs of \$12.00, the actual charged amount from CMWC's bank, for any bad check or electronic fund transfer not honored by the bank. This charge is reasonable because it is a direct pass-through of the bank's fee for funds not honored, so this tariff should be adopted.

### Balancing Accounts

CMWC currently has no pending or outstanding balancing accounts.

### COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

### UTILITY SAFETY

Safety for water utilities considers a number of factors such as water quality, system design, operation and maintenance, and service, including adequate source supply and capacity to meet maximum day demands and for public fire protection. The Commission's General Order (G.O.) 103-A provides the rules for water service, minimum standards for operation, maintenance, design and construction for the regulated water utilities. One of the highest safety priorities for the Commission however is ensuring that water utilities serving water for human consumption provide water that is not harmful or dangerous to health. This resolution provides adequate revenues to the utility so that it can provide safe and reliable water service to its customers. The water served by the utility meets all applicable primary water quality standards set forth by the State Water Resources Control Board.

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## 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 the Water Division (Division) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The bad check charge, requested by Cobb Mountain Water Company and reviewed by the Division (Appendix B) is reasonable and should be adopted.
4. The quantities (Appendix D) used to develop the recommendations of the Division are reasonable and should be adopted.
5. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
6. Cobb Mountain Water Company should be authorized to file a supplement to Advice Letter No. 41 to incorporate the revised rate schedules (Appendix B) and to concurrently cancel its presently effective Rate Schedules.
7. This is an uncontested matter subject to public notice comment exclusion provided in PU Code Section 311(g)(3).

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### THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Cobb Mountain Water Company to file a supplemental Advice Letter with the revised Rate Schedules attached to this Resolution as Appendix B and to concurrently cancel its presently effective Rate Schedules. The effective date of the revised Rate 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 August 18, 2016; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director

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## APPENDIX A

### COBB MOUNTAIN WATER COMPANY Summary of Earnings - Test Year 2016

	Utility Estimated Rates		Branch Estimated Rates	Recommended Rates
	Present	Proposed	Present	
<b><u>Operating Revenues</u></b>				
Metered Water Revenue	\$23,392	\$29,604	\$23,392	\$31,105
<b>Total Revenue</b>	<b>23,392</b>	<b>29,604</b>	<b>23,392</b>	<b>31,105</b>
<b><u>Operating Expenses</u></b>				
610 Purchased Water	0	0	0	0
615 Purchased Power	866	883	883	883
618 Other Volume Related	221	225	225	225
630 Employee Labor	5,406	5,568	5,568	5,568
640 Materials	605	394	394	394
650 Contract Work (incl. Water Testing)	3,303	2,438	2,438	2,438
660 Transportation Expenses	990	990	990	990
664 Other Plant Maintenance	0	0	0	0
670 Office Salaries	0	0	0	0
671 Management Salaries	8,109	8,352	8,352	8,352
674 Employee Pensions and Benefits	0	0	0	0
676 Uncollectibles	367	134	134	134
678 Office Services and Rentals	0	0	0	0
681 Office Supplies and Expenses	1,104	947	947	947
682 Professional Services	1,633	701	701	701
684 Insurance	750	1,020	1,020	1,020
688 Regulatory Commission Expense	0	150	150	150
689 General Expense	763	951	951	951
<b>Total Expenses</b>	<b>24,117</b>	<b>22,753</b>	<b>22,753</b>	<b>22,753</b>
Depreciation	1,140	1,140	1,140	1,140
Taxes Other Than Income	251	251	251	251
Income Taxes	1,501	1,501	1,501	1,724
<b>Total Deductions</b>	<b>27,009</b>	<b>25,645</b>	<b>25,645</b>	<b>25,868</b>
<b>Net Revenue</b>	<b>(3,617)</b>	<b>3,959</b>	<b>(2,253)</b>	<b>5,237</b>
<b>(ROM)</b>				
<b>RATE BASE</b>				
Utility Plant	N/A	N/A	58,780	58,780
Construction work in progress	0	0	0	0
Materials & Supplies	0	0	0	0
Working Cash	0	0	0	0
Accumulated Depreciation	N/A	N/A	29,681	29,681
Advances for Construction	0	0	0	0
Contributions in Aid of Constr.	0	0	0	0
Contributions	0	0	0	0
Deferred Income Taxes	0	0	0	0
<b>TOTAL RATE BASE</b>	<b>26,579</b>	<b>33,554</b>	<b>29,099</b>	<b>29,099</b>
<b>Rate of Return (ROR)</b>	<b>-13.46%</b>	<b>11.80%</b>	<b>-6.71%</b>	<b>11.80%</b>
<b>Rate of Margin (ROM)</b>				<b>21.69%</b>

**END OF APPENDIX A**

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## APPENDIX B (1 of 2)

COBB MOUNTAIN WATER COMPANY  
Schedule No. 1A  
ANNUAL GENERAL METERED SERVICE  
Test Year 2016

### APPLICABILITY

Applicable to all water service.

### TERRITORY

The west half of Section 3, Township 11 North, Range 8 West, M.D.B. and M. and vicinity, near Cobb, Lake County.

### RATES

Quantity Charge:			
For all water, per 100 cu. ft.		\$1.30	(I)
Monthly Service Charge:		<u>Per Meter Per Year</u>	
For 5/8 x 3/4-inch meter		\$ 462.90	(I)
For 3/4-inch meter		\$ 694.35	
For 1-inch meter		\$1,157.25	
For 1 1/2-inch meter		\$2,314.50	(I)

The Service Charge is a Readiness-To-Serve charge which is applicable to all metered water service and to which is added to the monthly charge for water used computed at the Quantity Rate.

### SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1<sup>st</sup> and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the customer may elect at the beginning of the calendar year, to pay prorated service charges on a bimonthly basis in accordance with the utility's established billing periods for water used.

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**APPENDIX B (2 of 2)**

**COBB MOUNTAIN WATER COMPANY**

**Rule No. 9**

**RENDERING AND PAYMENT OF BILLS**

**C. Bad Check Charge**

The utility may charge \$12.00 for any bad check or electronic fund transfer not (N)  
honored by the bank. (N)

**END OF APPENDIX B**

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## APPENDIX C

### COBB MOUNTAIN WATER COMPANY Test Year 2016

#### COMPARISON OF RATES

METERED SERVICE	Per Service Connection Per Year		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/ 8 x 3/ 4 - inch meter	\$323.79	\$462.90	43.0%
For 3/ 4 - inch meter	\$485.68	\$694.35	43.0%
For 1 - inch meter	\$809.47	\$1,157.25	43.0%
For 1-1/ 2 - inch meter	\$1,618.94	\$2,314.50	43.0%
Quantity Charge:			
All water, per 100 cu. ft.	\$1.19	\$1.30	9.2%

Comparison of a monthly typical bill for residential metered customers with a 5/ 8 x 3/ 4 - inch is shown below at current rates and recommended rates for Test Year 2014.

Usage 100 cu. ft.	Present Rates	Recommended Rates	Percent of Increase
0	\$323.79	\$462.90	43.0%
8	\$333.31	\$473.30	42.0%
11 (avg.)	\$336.88	\$477.20	41.7%
14	\$340.45	\$481.10	41.3%
20	\$347.59	\$488.90	40.7%

END OF APPENDIX C

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## APPENDIX D

### COBB MOUNTAIN WATER COMPANY ADOPTED QUANTITIES TEST YEAR 2016

<b>1. Purchased Water Cost</b>	\$0
<b>2. Purchased Power Cost</b>	\$883
<b>3. Payroll</b>	
Employee Labor	\$5,568
Office Salaries	\$0
Management Salaries	\$8,352
<b>5. Taxes Other Than Income</b>	\$251
<b>6. Service Connections Meter Size</b>	
5/8 x 3/4"	61
3/4"	0
1"	0
1 1/2"	0
<hr/>	
<b>Total</b>	<b>61</b>

#### Adopted Tax Calculation:

1. Operating Revenues	\$31,105
2. Expenses	\$22,753
3. Depreciation	\$1,140
4. Property Taxes	N/A
5. Taxable Income for State Tax	\$6,961
6. State Tax (8.84%)	\$800
7. Taxable Income for FIT	\$6,161
8. Federal Tax	\$924

END OF APPENDIX D

# COBB MOUNTAIN WATER COMPANY

## ADVICE LETTER NO. 41 SERVICE LIST

Cobb Area County Water District  
P.O. Box 284  
Cobb, CA 95426

Lake County Environmental Health  
922 Bevins Ct.  
Lakeport, CA 95453

Jack Haws, Executive Director  
California Water Association  
[jhaws@calwaterassn.com](mailto:jhaws@calwaterassn.com)