



March 3, 2017

Proposed Resolution W-5135

Agenda ID: 15545

To: All Interested Persons

Enclosed is Proposed Resolution W-5135 of the Water Division, which authorizes Cold Springs Water Company a general rate increase to produce additional annual revenues of \$98,040 or 35.8%, for test year 2017, to be paid by the Ratepayers. Proposed Resolution W-5135 is scheduled to appear on the April 6, 2017 Commission Meeting Agenda (ID #15545).

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-5135 via email to [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) on or before **March 27, 2017**. Please reference **"Proposed Resolution W-5135"** 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 Water Division. If email is unavailable, please submit comments to:

California Public Utilities Commission  
Water Division  
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 Water Division at [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) or (415) 703-1133. Please reference "Proposed Resolution W-5135."

/s/ RAMI S. KAHLON

Rami S. Kahlon, Director  
Water Division

Enclosures: Proposed Resolution W-5135  
Certificate of Service  
Service List

# PROPOSED RESOLUTION

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Agenda ID #15545

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5135

April 6, 2017

### RESOLUTION

**(RES. W-5135) COLD SPRINGS WATER COMPANY.  
ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING ADDITIONAL ANNUAL REVENUES OF  
\$98,040 OR 35.8%, FOR TEST YEAR 2017, TO BE PAID BY  
THE RATEPAYERS.**

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### SUMMARY

Cold Springs Water Company filed Advice Letter Number 64 on October 7, 2016, requesting 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 rates for water service to produce additional annual revenues of \$106,100 or 40.74%, above current revenues to recover increased expenses.

This resolution grants Cold Springs Water Company a general rate increase producing additional annual revenues of \$98,040, or 35.8%, and a rate of margin of 22.78% for Test Year 2017.

### BACKGROUND

Cold Springs Water Company (Cold Springs) serves 532 customers in Cold Springs and Peter Pam Subdivision approximately 8 miles east of Long Barn, Tuolumne County. Approximately 61 customers are full time water users, with the balance being vacation home owners. Cold Springs has a median household income of \$36,000. Approximately half of the full time customers are retired with most of the balance working in service related industries. The nearest water utility to Cold Springs located approximately five miles eastward is Del Oro Water Company's Strawberry District, which has a service charge of \$97.52 for a 5/8 x 3/4-inch meter size and a quantity rate of \$11.79 per ccf.

The last general rate case (GRC) increase for Cold Springs became effective April 18, 2013, pursuant to Resolution W-4941, which authorized an increase of 32.92% for Test

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Year 2012. Cold Springs' current rates were established by Advice Letter 62-W which implemented a 0.8% Consumer Price Index increase.

## NOTICE AND PROTESTS

Notice of the proposed rate increase was mailed to Cold Springs's customers on November 2, 2016. Seven protests regarding the proposed rate increase have been received and the utility responded. The protests cited the size of the increase and most complained specifically about the service charge. One vacation home customer was insistent that we use the Class C rate design previously recommended by the Commission (see the rate design discussion below). There was also one letter in support of the rate increase.

In setting rates in this resolution, we have balanced the financial requirements of Cold Springs with the rate concerns of its customers. We have also balanced the rate concerns of the full time residents with those of the part time residents.

## DISCUSSION

In reviewing Cold Springs' rate increase request, the Water Division (Division) made an independent analysis of the utility's operations. Appendix A of this resolution shows Cold Springs' and the Division's estimates of operating revenues, expenses and rate base. Appendix A also shows the differences in Cold Springs' and the Division's estimates in operating revenues, expenses, and rate base which are discussed below. Cold Springs was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B.

### Expenses

The Division used data from 2013 through 2015 to estimate Cold Springs' 2017 operating expenses. For all expenses except purchased power, management salary, and professional services, the Division's estimate is in agreement with the utility's estimate. For purchased power, the Division used the twelve months of actual bills ending in June 2016, that the utility submitted with the filing. For management salary, the utility requested \$48,960, which represented a 94% increase since the 2012 GRC. The utility cited increased regulatory burden as its reasoning for the increase. The Division increased the management salary adopted in the previous GRC resolution by \$500 per month to arrive at its estimate of \$31,223. This represents approximately a 5% per year

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increase. For professional services, the Division excluded the \$2,500 per year requested for a rate consultant, because the cost for hiring a consultant as needed is included in regulatory commission expense. The utility is in agreement with the resulting new estimate.

## **Rate Base and Depreciation**

The Division reviewed Cold Springs's plant accounts from the last authorized test year (2012) through Cold Springs's 2015 Annual Report and agrees with the annual report figures for total plant in service. Increases since the last GRC include the balance of the metering program, two pumps, and a new truck. Cold Springs has made approximately \$30,000 in well improvements in 2016 and the Division has added the well improvements to the Test Year 2017 plant in service. The Division has not included the balance of the \$167,000 planned improvements requested in the advice letter as this amount is not used and useful. The utility may apply for a rate base offset once planned improvements are used and useful. The Division uses 2.5% depreciation rate per Standard Practice U-3-SM and uses this rate to depreciate plant in service adopted in the last authorized test year to make its estimate of rate base \$287,330 for TY 2017 (Appendix A).

## **Rate of Margin**

The current range recommended for rate of return for a Class C utility is 10.00% to 11.00%<sup>1</sup>, and the Division based its analysis on 10.50%, the midpoint of the range. In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the Return on Margin (ROM) ratemaking as an alternate to the Return on Net Investment (Rate Base) method for calculating net revenue for Class C and Class D Utilities and required the Division to recommend the method that produces the higher net revenue result. The Division found that using the 22.78% rate of margin currently allowed<sup>2</sup> for a Class C utility would produce \$64,753 of net revenue whereas the rate of return on rate base method would produce \$30,170 of net revenue. Therefore, the Division recommends using the 22.78% rate of margin to calculate the proposed revenues.

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<sup>1</sup> This recommendation is set forth in a February 24, 2017 memorandum to the Commission entitled Rates of Return and Rates of Margin for Class C and Class D Water Utilities (February 24, 2017 Memorandum).

<sup>2</sup> See the February 24, 2017 Memorandum.

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## Rate Design

The challenge for the Cold Springs' rate design is balancing the interests of the full time versus part time customers. Approximately 61 customers are full time water users, and among them are some fixed income customers. Recovering costs through the service charge benefits the full time customers. Commission policy has been for a Class C utility to recover only 65% of fixed costs through the service charge. However, Cold Springs with 532 customers is "barely" a Class C and would be a small Class D were it not for the vacation homes. Class D utilities recover 100% of fixed charges in the service charge.<sup>3</sup> If the Class C (65%) rate design was used, the quantity charge would be \$15.10 per hundred cubic feet (ccf) with a \$33.42 service charge, whereas if the Class D (100%) rate design was used, the quantity charge would be \$3.30 per ccf with a \$51.42 service charge. In the last GRC, the Commission approved an "in between" rate design<sup>4</sup> for Cold Springs. In this GRC filing, the utility proposed the midpoint of the range between Class C and Class D (although their calculation was flawed) and staff proposes to accept a rate design with the midpoint of 82.5% of fixed charges in the service charge. This results in a quantity charge of \$9.20 per ccf with a \$42.42 service charge.

At the recommended rates, it is estimated that 82.5% of fixed charges will be recovered through the service charge. This rate design, similar to the one adopted for Cold Springs in its last GRC, represents a departure from the longstanding Commission policy of allowing Class C utilities to recover up to 65% of fixed costs through the service charge. The Division notes that the 65% policy was established in a proceeding over 20 years ago based on the appropriate risk to assign to a Class C water utility and is retained as a simplification to allow expeditious processing of informal GRCs. However, the Division cautions other Class B and C utilities that adopting the rate design proposed herein for Cold Springs will neither set precedent nor alter the general policy requiring them to request rates designed to recover only up to 50% and 65%, respectively, of fixed costs in service charges. The Division is making the recommendation to depart from the policy in the case of Cold Springs only to address specific issues of affordability and long term rate stability for Cold Springs' customers.

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<sup>3</sup> D.92-03-093 states at Ordering Paragraph 6 that Class D water utilities are authorized to file to recover up to 100% of fixed costs in the service charge portion of their rate design. Class C water utilities are authorized to file to recover up to 65% of fixed costs in the service charge portion of their rate design.

<sup>4</sup> In the last GRC, rates were designed to recover approximately 88.1% of fixed costs from the service charge.

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Cold Springs' current rate structure consists of one schedule: Schedule No. 1, General Metered Service. At the Division's recommended rates shown in Appendix B, an average customer using 2 ccf would see a bill increase from \$45.59 to \$61.70 per month or 35.3%. A customer using 10 ccf would see a bill increase from \$90.15 to \$136.02 per month or 50.9%. 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. For comparison, a customer of Del Oro Water Company's nearby Strawberry District with the smallest meter and using 10 ccf has a monthly bill of \$199.91.

## SAFETY AND COMPLIANCE

Cold Springs has no outstanding compliance orders and the utility has been filing annual reports as required. Cold Springs meets all applicable drinking water quality standards as required by the State Water Resources Control Board, Division of Drinking Water.

## 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 made available for public comment on March 3, 2017.

## FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Water Division is reasonable and should be adopted.
2. The rates (Appendix B) recommended by the Water Division are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Water Division are reasonable and should be adopted.

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4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. Cold Springs Water Company should be authorized to file a supplemental advice letter with the revised schedules attached to this Resolution as Appendix B and to concurrently cancel its presently effective Rate Schedules.
6. Cold Springs Water Company is in compliance with the State Water Resources Control Board water quality standard for safe drinking water.

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### THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Cold Springs Water Company to file a supplemental advice letter with the revised rate schedules attached to this Resolution as Appendix B, and concurrently cancel its presently effective Rate Schedule No. 1, General Metered Service. The effective date of the revised schedules shall be five days after the date of this resolution.
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 April 6, 2017; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director

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APPENDIX A  
Cold Springs Water Company

SUMMARY OF EARNINGS

Test Year 2017

Item	Utility Estimated		Branch Estimated	
	Present Rates	Requested Rates	Present Rates	Recommended Rates
<b><u>OPERATING REVENUES</u></b>				
Metered Rates	\$269,787	\$375,887	\$269,789	\$367,829
Other Water Revenue	\$3,820	\$3,820	\$3,820	\$3,820
<b>Total Revenue</b>	\$273,607	\$379,707	\$273,609	\$371,649
<b><u>OPERATING EXPENSES</u></b>				
Purchased Power	\$15,000	\$15,000	\$16,267	\$16,267
Other Volume Related Expenses	\$2,683	\$2,683	\$2,683	\$2,683
Employee Labor	\$72,406	\$72,406	\$72,406	\$72,406
Materials	\$1,638	\$1,638	\$1,638	\$1,638
Contract Work	\$2,400	\$2,400	\$2,400	\$2,400
Water Testing	\$5,797	\$5,797	\$5,797	\$5,797
Transportation	\$6,636	\$6,636	\$6,636	\$6,636
Other Plant Maintenance	\$4,613	\$4,613	\$4,613	\$4,613
Office Salaries	\$41,310	\$41,310	\$41,310	\$41,310
Management Salaries	\$48,960	\$48,960	\$31,223	\$31,223
Employee Benefits	\$17,201	\$17,201	\$17,201	\$17,201
Uncollectibles	\$0	\$0	\$0	\$0
Office Services & Rental	\$18,496	\$18,496	\$18,496	\$18,496
Office Supplies and Exp	\$11,029	\$11,029	\$11,029	\$11,029
Professional Services	\$3,986	\$3,986	\$1,455	\$1,455
Insurance	\$10,248	\$10,248	\$10,248	\$10,248
Regulatory Comm Exp	\$2,000	\$2,000	\$2,000	\$2,000
General Expenses	\$5,061	\$5,061	\$5,061	\$5,061
Subtotal	\$269,464	\$269,464	\$250,463	\$250,463
Depreciation Expense	\$20,408	\$20,408	\$16,951	\$16,951
Taxes other than income	\$18,625	\$18,625	\$16,839	\$16,839
State Income Tax	\$800	\$5,127	\$800	\$7,726
Federal Income Tax	\$0	\$8,218	\$0	\$14,918
<b>Total Deductions</b>	\$309,297	\$321,842	\$285,053	\$306,896
<b>NET REVENUE</b>	-\$35,690	\$57,866	-\$11,444	\$64,753
<b><u>RATE BASE</u></b>				
Total Average Plant	\$1,033,834	\$1,033,834	\$902,946	\$902,946
Less: Ratepayer Funded Plant	\$144,976	\$144,976	\$144,976	\$144,976
Adjusted Average Plant	\$888,868	\$888,868	\$757,970	\$757,970
Average Depreciation Reserve	\$634,484	\$634,484	\$420,083	\$420,083
<b>Net Plant</b>	\$399,360	\$399,360	\$337,887	\$337,887
Working Cash	\$22,455	\$22,455	\$22,455	\$22,455
Materials and Supplies	\$2,360	\$2,360	\$2,360	\$2,360
Less Advances	\$12,819	\$12,819	\$12,819	\$12,819
Contributions	\$0	\$0	\$62,553	\$62,553
<b>Rate Base</b>	\$411,356	\$411,356	\$287,330	\$287,330
<b>RATE OF MARGIN</b>	-11.6%	18.8%	-4.0%	22.78%

END OF APPENDIX A

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## APPENDIX B

Cold Springs Water Company

Schedule No. 1

GENERAL METERED SERVICE

### APPLICABILITY

Applicable to all metered water service.

### TERRITORY

Applicable to all services as shown on the Service Area Map.

### RATES

	<u>Quantity Rates</u>	(T)
Quantity Rates		
Per 100 Cubic Foot	\$9.29	(I)
Service Charge:		
For 5/8 x 3/4 meter	..... \$43.12	(I)
For 3/4-inch meter	..... \$64.68	(I)
For 1-inch meter	..... \$107.79	(I)
For 1-1/2 inch meter	..... \$215.59	(I)
For 2-inch meter	..... \$344.94	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge which is added the monthly charges computed at Quantity Rates for water used.

**(END OF APPENDIX B)**

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## APPENDIX C

### Cold Springs Water Company

#### COMPARISON OF RATES TEST YEAR 2017

<u>Tariff Description</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Current</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Service Charge:				
5/8 x 3/4 inch meter	\$34.45	\$43.12	\$8.67	25.2%
3/4-inch meter	\$51.68	\$64.68	\$13.00	25.2%
1-inch meter	\$86.12	\$107.79	\$21.67	25.2%
1-1/2 inch meter	\$172.25	\$215.59	\$43.34	25.2%
2-inch meter	\$275.60	\$344.94	\$69.34	25.2%
Quantity Charge:				
Per CCF	\$5.57	\$9.29	\$3.72	66.8%

A monthly bill comparison for a customer with a 5/8 x 3/4 -inch meter is shown below:

<u>Usage 100 cu. Ft.</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Current</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
0	\$34.45	\$43.12	\$8.67	25.2%
2	\$45.59	\$61.70	\$16.11	35.3%
5	\$62.30	\$89.57	\$27.27	43.8%
10	\$90.15	\$136.02	\$45.87	50.9%
15	\$118.00	\$182.47	\$64.47	54.6%
20	\$145.85	\$228.92	\$83.07	57.0%
30	\$201.55	\$321.82	\$120.27	59.7%

(END OF APPENDIX C)

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## APPENDIX D

### Cold Springs Water Company ADOPTED QUANTITIES TEST YEAR 2017

1. Purchased power

	Vendor	Pacific Gas and Electric
	Adopted Usage KWH	81,906
	Total Cost	\$16,267
	Composite Energy Cost (\$/KWH)	\$0.19861

2. Water

	Sales:	CCF			9,793
	Production:	CCF			13,344
	Non-Revenue:	%			26.6%

3. Number of Service Connections:

	Meter Size	Average Number of Customers
	5/8 x 3/4-inch	530
	3/4-inch	0
	1-inch	2
	1 1/2-inch	0
	2-inch	0

4. Tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$371,649	\$371,649
2.	O & M Expenses	\$250,463	\$250,463
3.	Taxes Other Than Income	\$16,839	\$16,839
4.	Depreciation	\$16,951	\$16,951
5.	Interest Expense	\$0	\$0
6.	Taxable Income for State Tax	\$87,396	
7.	State Tax	\$7,726	
8.	Taxable Income for FIT		\$79,670
9.	Federal Income Tax		\$14,918
10.	Total Income Tax		\$22,643
California Corporate Franchise Rate			8.84%
Federal Income Tax Rate		1st \$50K	15%
		Next \$25K	25%

(END OF APPENDIX D)

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## 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-5135 on all parties in these filings or their attorneys as shown on the attached lists.

April 6, 2017, at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

Parties should notify the Water Division, Third Floor, 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.

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## COLD SPRINGS WATER COMPANY ADVICE LETTER 64-W SERVICE LIST

### **By Mail:**

John D. Hendrickson  
25591 Tinkerbelle Lane  
Cold Springs, CA 95335

Robert Ackerman  
16440 Frymire  
Knights Ferry, CA 95361

James Nadeau  
2816 Easy Street  
Placerville, CA 95667

James A. Moe  
3939 Walnut Ave #191  
Carmichael, CA 95608

Carl T. Fisher  
29631 Lassen Dr.  
Cold Springs, CA 95364

Svetla and Ivan Zlatev  
28873 Sherwood Forest Lane  
Cold Springs, CA 95335

### **By Email:**

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