

DWA/RSK/BMD/PTL/MCV/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4926
August 2, 2012

R E S O L U T I O N

(RES. W-4926), R. R. LEWIS SMALL WATER COMPANY (R. R. LEWIS). ORDER AUTHORIZING AN ADJUSTMENT TO THE METERED SERVICE RATE DESIGN AND A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$31,564 OR 53.98% FOR TEST YEAR (TY) 2012.

SUMMARY

By Advice Letter (AL) 29, filed on November 14, 2011, R. R. Lewis seeks to increase its rates for water service to recover increased operating expenses and earn a reasonable return on its plant investment.

For TY 2012, this resolution grants R. R. Lewis' rate increase request with a Rate of Margin (ROM) of 17.84%. The increase in gross revenues over the revenues produced under the current rates is \$31,564 or 53.98%,¹ and \$7,735 or 9.40% relative to the revenue amount authorized in the company's last General Rate Case (GRC) by Res. W-4599 in TY 2005.

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1. The reason for the high revenue increase relative to revenues produced under current rates is due to the recommended adjustment to the metered service rate design adopted by Res. W-4599 for the company's GRC for TY 2005. The metered service rate design was based on 62 metered service customers and recovered only \$29,543 or 35.90% of the \$82,300, the company's authorized revenue requirement, and the remainder from the 52 customers taking flat rate service at that time. The recommended rate design for metered service is now based on the 121 customers currently on metered service and structured to recover approximately 98.5% of the authorized revenues from these customers and the remainder from the one flat rate customer.

This resolution adjusts the metered service rate design to reflect the current number of customers on metered service and provides an opportunity for the company to earn the authorized revenue requirement.

BACKGROUND

R. R. Lewis has requested authority under Rule 7.6.2 of General Order 96-B (GO 96-B), Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its gross water revenues for TY 2012 by \$38,674 or 75.30% over the revenues produced under current metered rates, and \$7,735 or 9.4% relative to the revenue amount authorized in the company's last GRC by Res. W-4599 for TY 2005. The purpose of the rate increase is to recover increased operating expenses and provide a reasonable rate of return. R. R. Lewis' request was based on a ROM of 24.89%. Division of Water and Audits' (Division) ROM estimate for the requested revenue requirement is 17.84%, which is lower than R. R. Lewis' ROM estimate because the company incorrectly calculated the ROM.

R. R. Lewis' present interim rates became effective on February 24, 2012, by approval of AL 30, which authorized a Consumer Price Index (CPI) rate increase of \$1,443 or 3.0%, in gross revenues, subject to refund or an increase to the rates established in this GRC. The last GRC for R. R. Lewis was authorized by Res. W-4599 for TY 2005 in which the Commission granted an increase in gross revenues of \$56,592 or 220.13%.

R. R. Lewis currently serves 121 customers in the area northeast of Sierra City in Sierra County. R. R. Lewis' water distribution system for domestic use has two water supply sources, the Anderson and the Wixson Springs. The Anderson Spring is the main source of water supply with an estimated capacity of 151 gallons per minute (gpm). R. R. Lewis shares the Wixson Spring with Tschopps Mutual Water and Maple Grove Mutual Water, both in Sierra County. R. R. Lewis and Tschopps Mutual Water share the largest usage diversion. Additionally, R. R. Lewis uses the Wixson Spring on a limited basis due to some bacteriological issues, which the company is addressing by installing a water chlorination system. For the Anderson Spring water supply, R. R. Lewis has four 10,000- gallon storage tanks and one 15,000-gallon concrete storage tank. Water from these storage facilities is gravity-fed through a chlorination system before it is supplied to its customers.

R. R. Lewis' water distribution system for fire protection is separate from its domestic water supply system, and the water source for the fire protection system comes from the North Yuba River and is also supplemented from water that overflows from the Anderson Spring water storage tanks.

NOTICE AND PROTEST

In accordance with GO 96-B, AL 29 was served on November 14, 2011, to adjacent utilities and persons on the general service list. On November 22, 2011, a notice of the proposed rate increase was mailed to each customer's billing address and to the general service list.

Thirteen customer letters opposing the rate increase were timely received, and the utility replied. All of the customer letters oppose the rate increase and believe that it is not justified.

An informal public meeting was held on December 14, 2011, at 7:00 PM at the Old Sierra City School House in Sierra City. Thirty customers from R. R. Lewis attended the meeting. Division staff explained the Commission procedures before authorizing a rate increase, and R. R. Lewis' representatives explained the need for the proposed rate increase. Division staff and R. R. Lewis representatives answered questions until approximately 9:00 PM.

DISCUSSION

The Division made an independent analysis of R. R. Lewis' operations. Appendix A provides R. R. Lewis' and the Division's estimated summary of earnings at present and proposed rates for TY 2012 and the Division's recommended rates for TY 2012. R. R. Lewis is in agreement with the Division's recommended revenue requirement in Appendix A and the Division's recommended rates in Appendix B. The Division recommends that the Commission approve the rate increases and resulting rates included in Appendix B.

Operating Expenses

R. R. Lewis' estimated operating expenses for TY 2012 are \$62,935, which is \$11,659 higher than the amount authorized in the company's last GRC by Res. W-4599 for TY 2005. Division evaluated the reasonableness of the company's estimated operating expenses by comparing these expenses to: 1) the amounts authorized by Res. W-4599 as the basis, escalated to TY 2012 using the annual escalation factors provided by the Division of Ratepayer Advocates (DRA) in its October 31, 2011 escalation memorandum (DRA Escalation Memo²); and 2) the company's 2008 through 2010 recorded expenses. Division found R. R. Lewis' estimated operating expenses for TY 2012 reasonable.

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2. DRA's October 31, 2011 memorandum on the estimates of non-labor and wage escalation rates for 2011 through 2015 from the October 2011 HIS Global Insight U.S. Economic Outlook.

Rate Base

Division's rate base calculation is higher than R. R. Lewis' estimate. Division's rate base calculation includes \$32,724 in plant additions made in 2011 and excludes \$1,850 in plant retirement, which Division found, during its investigation, the company made. Division reviewed the company's 2011 plant additions and finds the additions for inclusion into the company's rate base reasonable. Division's rate base estimate for TY 2012 is therefore \$68,654.

Rate of Margin

Division recommends a ROM of 17.84% based on the company's requested revenue requirement, which is lower than the most current recommended ROM for Class D water utilities.³ The company is in agreement with the lower ROM.

Rates and Rate Design Adjustment

In this GRC, Division recommends adjusting the metered service rate design to reflect the fact that most customers are now on metered service in order to provide the company an opportunity to earn the authorized revenue requirement. During its TY 2005 GRC, R. R. Lewis was transitioning its flat rate customers to metered service. At that time the company had 52 flat rate and 62 metered service customers. Therefore the rates and rate design adopted by Res. W-4599 for metered service were set to recover only \$29,543 or 35.90% of the \$82,300 authorized revenue requirement from metered service customers, and the remaining revenue requirement was to be met from the rates adopted for the flat rate customers and from other revenues.⁴ In essence, customers on metered service are underpaying for water service under the current metered service rate schedule because the metered service rates were set to recover only a portion of the revenue requirement. At this time, 121 customers are on metered service. Accordingly, Division recommends adjusting the rate design and rates to reflect the 121 customers currently on metered service in order to provide the company an opportunity to earn the authorized revenue requirement.

The metered service rate design proposed by R. R. Lewis would recover 100% of the fixed costs through the service charge, which is allowed for a Class D water utility

3. The 2012 recommended ROM for Class D water utilities is 22.56%. (March 6, 2012 Division of Water and Audits' Rate of Return and Rates of Margin for Class C and D Water Utilities Memorandum.)

4. Res. W-4599, Appendix A

under the Commission's rate design policies set-forth in D. 92-03-093.⁵ At the company's proposed fixed costs allocation, the service charge for a 5/8 x 3/4 -inch meter size would increase from \$23.73 to \$55.02 or by 131.87% and the quantity rate would decrease from \$1.47 to \$0.842 per one hundred cubic feet (Ccf⁶). For this GRC, Division recommends a rate design that allocates 90% of fixed costs to the service charge to more proportionally spread the rate increase between the service charge and the quantity rate. At the 90% allocation rate, the service charge for a 5/8 x 3/4 -inch meter size would increase from \$23.73 to \$49.52 or by 108.69% and the quantity rate would increase from \$1.47 to \$1.81 per Ccf, or 22.93%, which Division finds more reasonable.

R. R. Lewis rate structure consists of two schedules: Schedules Nos. 1, General Metered Service, and 2RA, Residential Flat Rate Service. The rates proposed by the Division are shown in Appendix B. At the Division's recommended rates the increase in gross revenue over the revenues produced under the current rates will be \$31,564 or 53.98%, and \$7,735 or 9.4% relative to the revenue amount authorized by Res. W-4599 in TY 2005. At the recommended rates for 2012, a customer's monthly bill with average consumption of 5.82 Ccf will increase from \$32.28 to \$60.01, a difference of \$27.73 or 85.90%. As discussed above the reason for the high percentage of the rate increase is due to adjustment to the metered service rate design. 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.

COMPLIANCE

The utility has no outstanding water quality violations and is in compliance with California Department of Public Health water quality standards and the Commission's General Order 103-A.

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.

5. April 2, 1992 Commission decision in Investigation 89-03-005, "Investigation on the Commission's own motion into the financial and operational risks of Commission regulated water utilities, and whether current ratemaking procedures and policies require revision", Ordering Paragraph 6.

6. One Ccf equals 748.1 gallons.

Accordingly, the draft resolution was mailed to the utility, all protestants (whether or not they filed timely protests), and those requesting service at the public meeting, and made available for public comment on July 3, 2012. No comments were filed on the draft resolution.

FINDINGS

1. R. R. Lewis has requested authority to increase gross water revenues for TY 2012 by \$38,674 or 75.30%, over the revenues produced under current rates.
2. The increase in rates is due to increases in operating expenses and the adjustment to the metered service rate design to reflect the 121 customers currently on metered service.
3. AL 29 was served in accordance with General Order 96-B on November 14, 2011. On November 22, 2011, a notice of the proposed rate increase was mailed to each customer and the general service list.
4. In reviewing R. R. Lewis' request, the Division made an independent analysis of the company's operations.
5. R. R. Lewis' estimated operating expenses for TY 2012 are \$62,935, which is \$11,659 higher from the amount authorized by Res. W-4599 for the company's GRC in TY 2005.
6. Division reviewed R. R. Lewis' estimated operating expenses for TY 2012 and found them to be reasonable based on the amounts authorized by Res. W-4599, escalated to 2012 using the annual escalation factors provided in DRA's Escalation Memo, and the company's 2008 through 2010 recorded expenses.
7. Division's rate base calculation is higher than the R. R. Lewis' estimate because it includes \$32,724 in plant additions in 2011 minus \$1,850 in retired plant, which Division found, during its investigation, the company made.
8. Division reviewed the R. R. Lewis' 2011 plant additions and recommends allowing the added plant into the company's rate base. Division's rate base estimate for TY 2012 is \$68,654.
9. Division recommends an ROM of 17.84% based on the company's requested revenue requirement, which is lower than the most current recommended ROM for Class D water utilities. The company is in agreement with the lower ROM.

10. Division recommends adjusting R. R. Lewis' rate design for metered service to reflect the current 121 customers taking metered service and provide the company an opportunity to earn the authorized revenue requirement.
11. Division recommends a rate design for metered service that allocates 90% of fixed costs to the service charge to more proportionally spread the rate increase between the service charge and the quantity rate.
12. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
13. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
14. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
15. For TY 2012, it is appropriate to grant R. R. Lewis an increase in gross annual revenues of \$31,564 or 53.98% over the revenues produced under current rates, which is estimated to provide a ROM of 17.84%.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to R. R. Lewis Small 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 rates in Schedules Nos. 1, General Metered Service, and 2RA, Residential Flat Rate Service. The effective date of the revised rate schedules shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
3. R.R. Lewis Small Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates authorized in this Resolution. This advice letter shall become effective upon approval by Staff of the Division of Water and Audits.

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 August 2, 2012; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

APPENDIX A
RR Lewis Small Water Co.
Summary Of Earnings
Test Year 2012

	RR_Lewis		Division		Division
	Present Rates	Requested Rates	Present Rates	Requested Rates	Recommended Rates
Operating Revenues					
Un-metered	\$ 1,433	\$ -	\$ 960	\$ 1,380	\$ 1,380
Metered	\$ 45,028	\$ 90,035	\$ 47,060	\$ 88,618	\$ 88,655
Other Revenues	\$ 10,451	\$ -	\$ 10,451		
Total Revenue	\$ 55,479	\$ 90,035	\$ 58,471	\$ 89,998	\$ 90,035
Operating Expenses					
610 Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
615 Purchased Power	\$ 586	\$ 586	\$ 586	\$ 586	\$ 586
618 Other Volume Related Expenses	\$ 1,488	\$ 1,488	\$ 1,488	\$ 1,488	\$ 1,488
630 Employee Labor	\$ -	\$ -	\$ -	\$ -	\$ -
640 Materials	\$ 5,447	\$ 5,447	\$ 5,447	\$ 5,447	\$ 5,447
650 Contract Work	\$ 12,127	\$ 12,127	\$ 12,127	\$ 12,127	\$ 12,127
water testing	\$ 5,800	\$ 5,800	\$ 5,800	\$ 5,800	\$ 5,800
660 Transportation Expenses	\$ 6,579	\$ 6,579	\$ 6,579	\$ 6,579	\$ 6,579
664 Other Plant Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -
670 Office Salaries	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400
671 Management Salaries	\$ 14,300	\$ 14,300	\$ 14,300	\$ 14,300	\$ 14,300
674 Employee Pensions and Benefits	\$ -	\$ -	\$ -	\$ -	\$ -
676 Uncollectable Accounts	\$ -	\$ -	\$ -	\$ -	\$ -
678 Office Services and Rentals	\$ 1,093	\$ 1,093	\$ 1,093	\$ 1,093	\$ 1,093
681 Office Supplies and Expenses	\$ 957	\$ 957	\$ 957	\$ 957	\$ 957
682 Professional Services	\$ 1,684	\$ 1,684	\$ 1,684	\$ 1,684	\$ 1,684
684 Insurance	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600
688 Regulatory Commission Expense	\$ 696	\$ 696	\$ 696	\$ 696	\$ 696
689 General Expense	\$ 6,178	\$ 6,178	\$ 6,178	\$ 6,178	\$ 6,178
Subtotal	\$ 62,935				
403 Depreciation	\$ 5,587	\$ 5,587	\$ 9,199	\$ 9,199	\$ 9,199
408 Taxes Other Than Income	\$ 1,298	\$ 1,298	\$ 1,298	\$ 1,298	\$ 1,298
409 State Income Taxes	\$ 1,787	\$ 1,787	\$ 800	\$ 1,464	\$ 1,468
410 Federal Income Taxes	\$ 2,764	\$ 2,764	\$ -	\$ 2,265	\$ 2,270
Total Deductions	\$ 74,371	\$ 74,371	\$ 74,232	\$ 77,161	\$ 77,170
Net Revenue	\$ (18,892)	\$ 15,664	\$ (15,761)	\$ 12,836	\$ 12,865
Rate Base					
Average Plant	\$ 337,080	\$ 337,080	\$ 367,954	\$ 367,954	\$ 367,954
Average Dep. Reserve	\$ 289,772	\$ 289,772	\$ 309,992	\$ 309,992	\$ 309,992
Net Plant	\$ 47,308	\$ 47,308	\$ 57,962	\$ 57,962	\$ 57,962
Less: Contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Plus: Working Cash	\$ 5,245	\$ 5,245	\$ 5,245	\$ 5,245	\$ 5,245
Materials and Supplies	\$ 5,447	\$ 5,447	\$ 5,447	\$ 5,447	\$ 5,447
Rate Base	\$ 58,000	\$ 58,000	\$ 68,654	\$ 68,654	\$ 68,654
Operating Ratio	-27.57%	22.86%	-21.85%	17.79%	17.84%

(END OF APPENDIX A)

APPENDIX B
R. R. Lewis Small Water Company

SCHEDULE NO. 1

GENERAL METERED SERVICE
Test Year 2012

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area northeast of Sierra City, north of the North Yuba River, adjacent to Highway 49 in Sierra County.

RATES

Quantity Rates:

All water, per 100 cu. ft.	\$1.81	(I)
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Per Meter Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 49.50	(I)
For 3/4-inch meter	\$ 74.30	
For 1-inch meter	\$ 123.80	
For 1-1/2-inch meter	\$ 247.60	
For 2-inch meter	\$ 396.20	
For 3-inch meter	\$ 742.80	
For 4-inch meter	\$1,238.00	(I)

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

SPECIAL CONDITIONS

1. All water bills are subject to the California Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.

APPENDIX B
R. R. Lewis Small Water Company
SCHEDULE NO. 2RA

RESIDENTIAL FLAT RATE SERVICE
Test Year 2012

APPLICABILITY

Applicable to all flat rate residential water service furnished on a monthly basis.

TERRITORY

The area northeast of Sierra City, north of the North Yuba River, adjacent to Highway 49 in Sierra County.

RATES

	<u>Per Service Connection</u>	
	<u>Per Month</u>	
For a single-family residential Unit, including premises:	\$115.00	(I)
For each additional single-family residential unit on the same premises served from the same service connection.	\$115.10	(I)

SPECIAL CONDITIONS

1. The above residential rates apply to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.
3. All water bills are subject to the California Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C
R. R. Lewis Small Water Company

COMPARISON OF RATES
Test Year 2012

	Per Service Connection Per Month		
	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
Service Charge:			
5/8 x 3/4"	\$ 23.73	\$ 49.50	108.60%
3/4"	\$ 23.73	\$ 74.30	213.11%
1"	\$ 39.32	\$123.80	214.85%
Quantity Charge:			
All water usage, per 100 cubic feet (Ccf)	\$ 1.47	\$ 1.81	22.93%

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

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$23.73	\$49.50	\$25.77	108.60%
Average 5.82	\$32.28	\$60.01	\$27.73	85.90%
10	\$38.43	\$67.57	\$29.14	75.83%

(END OF APPENDIX C)

APPENDIX D
R. R. Lewis Small Water Company

ADOPTED QUANTITIES

Test Year 2012

1. Purchased Power	
Total Cost	\$586
2. Water Sales	8,447 Ccf
3. Payroll	
Office Salaries	\$ 2,400
Management Salaries	\$14,300
4. Property Taxes	\$1,298
Service Connections	
5/8 -inch by 3/4 inch	118
3/4 -inch	2
1 -inch	<u>1</u>
Total	121

Water Consumption

Tax Calculations

	<u>2012</u>
Operating Revenues	\$90,035
Expenses	\$62,935
Depreciation	\$ 9,199
Taxes other than Income	\$ 1,298
Taxable Income for State	\$16,603
State tax	\$ 1,468
Taxable Income for Federal	\$15,135
Federal tax	\$ 2,270

(END OF APPENDIX D)