

WATER/JPT/EYC/LTR/rlj

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

WATER DIVISION

RESOLUTION NO. W-4612  
September 7, 2006

**R E S O L U T I O N**

**(RES. W-4612), RURAL WATER COMPANY, INC. (RURAL) -  
CYPRESS RIDGE SEWER SYSTEM (CYPRESS RIDGE). ORDER  
AUTHORIZING A THIRTY-SIX MONTH RATE SURCHARGE FOR  
RECOVERY OF THE UNANTICIPATED EXPENSE MEMORANDUM  
ACCOUNT, FOR A TOTAL AMOUNT OF \$69,756 OR 36.5% IN 2006.**

**SUMMARY**

By Advice Letter (AL) No. 4, filed on August 3, 2005, Cypress Ridge seeks approval for rate recovery of \$115,841<sup>1</sup> from its Unanticipated Expense Memorandum Account (UEMA) from January 1 through June 30, 2005.

This resolution grants recovery of \$69,756 of Cypress Ridge's UEMA in the form of a 36-month surcharge of \$5.37 per month for a typical residential customer.

**BACKGROUND**

Cypress Ridge has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to recover \$89,076 through a 36-month surcharge and to increase its annual sewer rates by \$89,030, or 46.7%, in Test Year 2006. The purpose of the surcharge was to recover unanticipated expenses in Cypress Ridge's UEMA from January 1 through June 30, 2005. Cypress Ridge's request shows gross revenues of \$190,735 at present rates increasing to \$279,765 at proposed rates.

The present rates were established on September 12, 2005, pursuant to Resolution No. W-4554, which authorized recovery of \$75,867 from Cypress Ridge's UEMA for the period of April 22 to December 31, 2004.

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<sup>1</sup> AL No. 4 was filed requesting recovery of \$89,076. Staff calculated \$115,841 in expense recovery and recommends the higher amount for recovery.

Cypress Ridge was granted a Certificate of Public Convenience and Necessity (CPCN), effective January 1, 2003, and rates were initially set by Commission Decision (D.) 02-06-005. In D. 02-06-005, the Commission recognized the uncertainty of operational expenses and allowed for re-evaluation of contract services (Finding of Fact No. 4), an allowance of a rate of margin (Findings of Fact No. 7), the establishment of an insurance expense memorandum account (Findings of Fact No. 12), and the adjustment of rates for additional commercial customers (Findings of Fact No. 20). Rates were set to allow Cypress Ridge a 15% rate of margin, thus recognizing the uncertainty of operational expenses and the lack of rate base.

Cypress Ridge is a Chapter S (Sole Proprietorship) California corporation with Mr. Charles Baker as CEO (and sole stockholder).

Cypress Ridge serves approximately 352 residential and 8 commercial flat rate sewer customers in its service area in San Luis Obispo County. Cypress Ridge's filing did not project any customer growth in 2006. The majority of customers are full-time residents and are either retired or working (executives and self-employed) individuals. Service territory is less than one square mile and the terrain is generally flat land.

Cypress Ridge's sewage treatment plant is a stand-alone batch reactor sewer system which requires a minimum Grade 3 Wastewater Treatment Plant Operator as its chief operator. Cypress Ridge does not have any employees or equipment, but rather contracts for all services. Mr. Baker oversees all contracts and day-to-day management.<sup>2</sup> Cypress Ridge is provided water by Rural, which Mr. Baker also owns. Because of the dual ownership, some expense items are shared.

### **NOTICE, PUBLIC MEETING, PROTESTS AND STAFF REPORT**

A notice for the recovery of the UEMA surcharge increase was mailed to each customer on November 2, 2005. The Water Division (Division) received two letters regarding the proposed surcharge request. One letter was from an individual customer and dealt with the questionable management of Cypress Ridge and the passing on of costs to customers. The other letter was from the Cypress Ridge Owners' Association (CROA) and dealt with many issues surrounding the rate request. Neither letter provided supporting information to their statements. The Division responded to both letters.

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<sup>2</sup> Mr. Baker does not possess any operator's licenses for either wastewater or water facilities.

From December 12, 2004, to December 12, 2005, the Consumer Affairs Branch of the Communications and Public Affairs Division received no complaints regarding Cypress Ridge.

A field investigation was performed and an informal meeting, in the service area, was conducted on December 13, 2005. The meeting commenced at 2:10 p.m. and adjourned at 4:24 p.m., with approximately 28 individuals attending. The Division representative explained the Commission rate setting procedures as well as the purpose of the meeting. Cypress Ridge's representative provided justification for the request. In addition, CROA gave a slide presentation regarding their concerns over the operations and rate setting procedures. The balance of the meeting consisted of comments, questions, and discussion among the participants.

The Division issued its staff report on May 4, 2006. The report was mailed to all interested parties, including CROA. On June 2, CROA issued comments on the staff report. CROA questioned the amount of recovery sought, nature of the cost of repairs booked, and the consultant fees allowed. On June 5, the Division replied to the comments and informed CROA that the draft resolution would be distributed for comments.

## **DISCUSSION**

The Division has reviewed the expenses recorded in the UEMA for the period from January 1 to June 30, 2005. Division notes that Cypress Ridge submitted summary sheets for its expenses but failed to provide supporting documentation for all expenses listed in the summary sheets. The Division calculated the total of the summary sheets for the above time period to be \$115,841, not the \$89,076, as indicated in the advice letter filing.

The Division believes that Cypress Ridge could not have anticipated the expenses and was not allowed sufficient revenue for the expenses to operate the sewage treatment plant. The Division has allowed recovery of the difference between the expenses for contract work for plant maintenance, for that found reasonable, and that allowed in D.02-06-005, in the amount of \$46,675. In addition, Division has allowed a consultant fee of \$23,080 for the same time period. Division determined that \$69,756 was found reasonable and should be allowed for recovery based upon a review of the supporting documentation. Cypress Ridge shall track the revenue from the surcharge in a balancing account as required by Public Utilities Code §792.5.<sup>3</sup>

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<sup>3</sup> Public Utilities Code § 792.5 states:

D.92-03-093 and W-4467 allowed all water and sewer utilities to establish and seek recovery of unanticipated repair expenses. Cypress Ridge has sought, and was granted, recovery for its memorandum accounts. Cypress Ridge has already been authorized recovery of \$75,867 for expenses due to problems balancing flows in its treatment plant in 2004. It is also presently seeking recovery of costs for the same problems in first half of 2005. Cypress Ridge continues to track these expenses and has indicated that filings will be forthcoming for additional expenses.

Cypress Ridge currently provides service under two rate schedules: Nos. 1, Residential Flat Rate Sewer Service, and 2, Commercial Flat Rate. The new rate schedules can be found in Appendix B.

Cypress Ridge's Advice Letter No. 4 should be approved as modified.

### **COMPLIANCE**

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

### **COMMENTS**

No comment was received by the Water Division.

### **FINDINGS**

1. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
2. Advice Letter No. 4 should be approved as modified.

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Whenever the Commission authorizes any change in rates reflecting and passing through to customers specific changes in costs, except rates set for common carriers, the Commission shall require as a condition of such order that the public utility establish and maintain a reserve account reflecting the balance, whether positive or negative, between the related costs and revenues, and the Commission shall take into account by appropriate adjustment or other action any positive or negative balance remaining in any such reserve account at the time of any subsequent rate adjustment.

3. Cypress Ridge should track revenue collected under the surcharge for its UEMA and refund any excess revenues collected to its customers.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Cypress Ridge to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, Residential Flat Rate Sewer Service, and Schedule No. 2, Commercial Flat Rate Sewer Service. The revised rate schedules shall become effective five days from the date of filing.
2. Cypress Ridge is authorized to collect \$69,756, from its unanticipated expenses memorandum account, in the form of a 36-month surcharge.
3. Cypress Ridge shall track the revenue from the surcharge in a balancing account as required by Public Utilities Code §792.5.
4. Cypress Ridge Advice Letter No. 4 is hereby approved as modified.
5. 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 September 7, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

**APPENDIX B  
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Rural Water Company, Inc.  
Cypress Ridge Sewer Service

**Schedule No. 1  
RESIDENTIAL FLAT RATE SEWER SERVICE**

**APPLICABILITY**

Applicable to all residential sewer service.

**TERRITORY**

Cypress Ridge, within Tract # 1933, and including Golf Course Complex,  
San Luis Obispo County.

**RATES**

	Per Connection <u>Per Month</u>
For all residential sewer service . . . . .	44.03

**SPECIAL CONDITIONS**

1. All sewer service is subject to a monthly surcharge of \$6.74 for a period of 36 months beginning September 12, 2005. (T)  
(T)
2. All sewer service is subject to a monthly surcharge of \$5.37 for a period of 36 months beginning with the effective date of the advice letter. (N)  
(N)
3. All bills are subject to the Reimbursement fee set forth in Schedule No. UF. (L)

**APPENDIX B  
 (Page 2 of 2)**

Rural Water Company, Inc.  
 Cypress Ridge Sewer Service

**Schedule 2  
COMMERCIAL FLAT RATE SEWER SERVICE**

**APPLICABILITY**

Applicable to all commercial sewer service.

**TERRITORY**

Cypress Ridge, within Tract #1933, and including Golf Course Complex, San Luis Obispo County.

**RATES**

Service Charge:

		Per Connection <u>Per Month</u>	AL No. 2-A Surcharge <u>Per Month</u>	(T)
For	Golf Pro Shop	\$29.50	\$ 4.34	
For	Golf Maintenance Facility	\$71.55	\$10.52	
For	Commercial/Office Facility	\$58.99	\$ 8.67	
For	Pavilion	\$58.99	\$ 8.67	
		Surcharge	(N)	
		Per Month		
		<u>(Res. W-4612)</u>		
For	Golf Pro Shop	\$ 3.60		
For	Golf Maintenance Facility	\$ 8.72		
For	Commercial/Office Facility	\$ 7.19		
For	Pavilion	\$ 7.19	(N)	

**SPECIAL CONDITIONS**

1. AL No. 2-A Surcharge is effective for a period of 36 months beginning September 12, 2005. (T)
2. Surcharge as authorized by Res. W-4612 is for a period of 36 months beginning with the effective date of the advice letter. (N)  
(N)
3. All bills are subject to the Reimbursement fee set forth in Schedule No. UF. (L)