

WATER/FLC/PTL/RKN/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER & AUDITS DIVISION

RESOLUTION NO. W-4641

May 3, 2007

R E S O L U T I O N

(RES. W-4641), YERBA BUENA WATER COMPANY, (Yerba Buena). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$63,315 OR 45.63% IN TEST YEAR 2007.

SUMMARY

By Draft Advice Letter, filed on October 23, 2006 and revised it on December 20, 2006, Yerba Buena seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return. The Water Division (Division) accepted this Draft Advice Letter filing on December 20, 2006.

For Test Year 2007, this resolution grants an increase in gross annual revenues of \$63,315 or 45.63%, estimated to provide a rate of margin of 25%.

BACKGROUND

Yerba Buena is a Class D water utility currently providing water service to the southwesterly border of Los Angeles County and the southeasterly border of Ventura County meet in coastal Malibu and it extends along the Pacific Ocean coast for about 1.5 miles.

Yerba Buena requests authority under §VI of General Order 96 and §454 of the Public Utilities Code to increase its water rates by \$108,079 or 112.1% for Test Year 2007. The purpose of the rate increase is to recover increased operating expenses and to earn an adequate rate of return. Yerba Buena's request shows gross revenues of \$96,406 at present rates increasing to \$204,485 at the proposed rates. Yerba Buena is requesting a return on rate base of 23.84%.

Yerba Buena's present rates became effective with its interim general rate increase granted on January 25, 2007 pursuant to Res. W-4631 which authorized a rate increase of \$40,000 or 41.5%. This interim rate increase was provided subject to refund upon final resolution of the Yerba Buena general rate case (GRC) request. The last GRC was adopted on June 8, 2000 pursuant to Res. W-4197, which authorized an increase in revenue of \$11,506, or 17.00% with a 12.75% rate of return on the rate base.

Yerba Buena currently serves 244 customers. All 244 are metered and are located in the Ventura County. The Yerba Buena water distribution system consists of three wells which pump water from a non-adjudicated groundwater basin which provides the source for its requirements.

DISCUSSION

The Water Division (Division) made an independent analysis of Yerba Buena's summary of earnings and issued its staff report in April 2007. Appendix A shows Yerba Buena's and the Division's estimates of the summary of earnings at present, proposed, and Commission's adopted rates. Appendix A also shows differences in Yerba Buena's and the Division's estimates in operating revenues, expenses, and rate base. Informed of the Division's differing views, Yerba Buena agreed with the Division's findings.

Yerba Buena has requested a rate of return of 23.84%. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12.75% to 13.75% for a Class D, 100% equity-financed utility. Two methods are available for Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. 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 rate of return and rate of margin 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 rate of margin method, the utility's return is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the rate of margin. 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 Rate of Return Method was used, a utility with little or no rate base would earn little or no return. A&C has recommended a rate of margin of 25% for Class D water utilities. A comparison of the two

methods indicates that the rate of margin method produces a higher return; therefore, the Division recommends the rate of margin method.

Yerba Buena's current rate structure consists of one rate schedule – Schedule No. 1 – Metered Service. The new rate schedule is included in Appendix B. At the recommended rate of margin the increase in revenue will be \$63,315 or 45.63% for test year 2007.

At the Division's recommended rates, a monthly bill for an average metered (5/8-inch x 3/4-inch) residential customer using an average of 18.48 Ccf (One Ccf is equal to one hundred cubic feet) would increase from \$29.70 to \$42.36 per month, an increase of \$12.66 or 42.62%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities are shown in Appendix D.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on December 20, 2006. On February 7, 2007, a public meeting was held within Yerba Buena's service area at the Wilshire Boulevard Temple Camps, Camp Hess Kramer, Malibu, and Ventura County, California. The meeting was held to afford customers the opportunity to be heard and to ask questions about the proposed increase and the approval process. The meeting started at 6:35 p. m. and approximately 10 people with one service connection customer attended the public meeting.

A field visit to review Yerba Buena's expenses and other quantities and to inspect its facilities was conducted by the Division staff with the Yerba Buena staff.

COMPLIANCE

Yerba Buena has no outstanding compliance orders. The utility has been filing annual reports as required. Yerba Buena tariff sheets were reviewed by staff and following sheets need to be updated: Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Preliminary Statement; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 10, Disputed Bills; 15, Main Extensions; and 16, Service

Connections, Meters, and Customer's Facilities; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311 (g) (3).
5. Yerba Buena should be authorized to update the following tariff sheets: Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Preliminary Statement; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 10, Disputed Bills; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Yerba Buena Water Company to file an advice letter incorporating the Summary of Earnings and the revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1 - Metered Service. The effective date of the revised schedule shall be five days after the date of filing.
2. Yerba Buena Water Company is authorized to increase its annual revenues by \$63,315 or 45.63% for the test year 2007.

3. Within 60 days after the effective date of this resolution, Yerba Buena Water Company shall file an advice letter updating its tariff sheets: Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Preliminary Statement; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 10, Disputed Bills; ; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

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 May 3, 2007; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

APPENDIX B

**YERBA BUENA WATER COMPANY
Test Year 2007**

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service rendered on an annual basis.

TERRITORY

In parts of Sections 26 and 27, T.1 S., R.20 W., S.B.B. & M. adjacent to the Pacific Ocean, Ventura County and designated Parcels indicated on the service area map.

RATES

	<u>Per Meter Per Month</u>	<u>Years 1-10 Surcharge Per Month</u>
For 5/8 x 3/4 - inch meter	\$ 29.79 (I)	\$ 2.07
For 1 - inch meter	\$ 75.86	\$ 5.17
For 1-1/2 - inch meter	\$ 151.74	\$ 10.33
For 2 - inch meter	\$ 242.80	\$ 16.53
For 3 - inch meter	\$ 454.17 (I)	\$ 30.99

Quantity Rate:

All water, per 100 cubic feet \$ 0.68

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the charge computed at Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
2. The surcharge is in addition to the water bill. The surcharge is specifically for the repayment of the loan with a 10-year term authorized by Resolution No. W-4328.
3. The surcharge rates are subject to periodic adjustment.

APPENDIX C
YERBA BUENA WATER COMPANY
 Comparison of Rates
 Test Year 2007

Comparison of a monthly typical bill for residential metered customers with a 5/8x3/4 inch meter is shown below at current rate and recommended rates for test year 2007

	Usage 100 Cu.Ft	Present Rates	Recom. Rates	Amount Increase	Percent Increase
	0.00	\$19.48	\$29.79	\$10.31	52.92%
	10.00	\$25.01	\$36.59	\$11.58	46.30%
Ave.	18.48	\$29.70	\$42.36	\$12.66	42.62%
	20.00	\$30.54	\$43.39	\$12.85	42.08%
	30.00	\$36.07	\$50.19	\$14.12	39.16%

COMPARISON OF RATES:

Metered Service	Present <u>Rates</u>	Per Meter <u>Proposed Rates</u>	Percent <u>Increase</u>
For 5/8 x 3/4-inch meter	\$ 19.84	\$ 29.79	50.15%
For 3/4-inch meter	\$ 49.61	\$ 75.86	52.91%
For 1-inch meter	\$ 99.23	\$151.74	52.92%
For 1-1/2-inch meter	\$158.78	\$242.80	52.92%
For 2-inch meter	\$297.70	\$454.17	52.56%

Quantity Rate:

All water, per 100 cu.ft.	\$0.533	\$0.68	27.58%
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APPENDIX - D

ADOPTED QUANTITIES
YERBA BUENA WATER COMPANY
ADOPTED QUANTITIES

Expenses	Test Year 2007
1. Purchased Power	
Schedule - A1	
kWh's	61,512
Cost	\$10,808
\$/kWh	\$0.1787/kWh
Purchased Water	None
Franchise Tax Rate	2.00%
Service Connections	244
Water Sales (Ccf)	54120
<u>Tax Calculations:</u>	
Net Revenue	\$38,672
State Tax (8.84% or \$800 Minimum)	\$3,419
Federal Taxable Income	\$35,253
Federal Tax	\$5,288