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**WATER/RSK/PTL/LEP/jlj**

**AGENDA ITEM #7693**

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

**WATER DIVISION  
Water and Sewer Advisory Branch**

**RESOLUTION NO. W-4694  
June 26, 2008**

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

**(RES. W-4694), VISTA GRANDE WATER SYSTEM  
(Vista Grande). ORDER AUTHORIZING A GENERAL  
RATE INCREASE, PRODUCING ADDITIONAL  
ANNUAL REVENUES OF \$21,028 OR 44.5% FOR TEST  
YEAR 2008.**

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**SUMMARY**

By Draft Advice Letter filed on November 13, 2007, Vista Grande seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on December 10, 2007.

For Test Year 2008, this resolution grants an increase in gross annual revenues of \$21,028 or 44.5% which is estimated to provide a rate of return of 13.25%.

**BACKGROUND**

Vista Grande Water System, a Class D water utility, has requested authority under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$30,223 or 65% for test year 2008. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Vista Grande's requests shows 2008 gross revenues of \$46,548 at present rates increasing to \$76,771 at proposed rates. Vista Grande is requesting a rate of return of 13.4%. The last general rate case for Vista Grande was granted on January 22, 2004, by

Res. W-4452 which granted an increase of \$13,367 or 49.4% with a 12.9% rate of return on rate base for test year 2003.

Vista Grande serves an unincorporated area known as Vista Grande Subdivision and vicinity, located approximately two miles northeast of Red Bluff, Tehama County. Vista Grande's service area covers approximately two square miles of territory. Vista Grande estimates that it will serve approximately 142 metered rate customers in test year 2008 and the number of customers is not expected to increase.

Vista Grande is owned by the Patterson Trust, with Donald E. Crain as the named trustee and Mr. Shan Patterson as the Trust caretaker. The Patterson Trust was formed in 1992 and Vista Grande's ownership was transferred from Mr. and Mrs. Patterson to the Patterson Trust in December of 1992.

The Patterson Trust also owns two other water systems: Las Flores Water Works and Mira Monte Water Company. All three utilities are operated by Mr. Shan Patterson. He is the manager, general maintenance, and field worker. Mrs. Patterson is the office employee and bookkeeper and they have one part-time employee who does mostly meter reading. The majority of the repair work is done by Mr. Patterson or contracted out.

The three CPUC regulated utilities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). The shared expenses are allocated to each company on a percentage based on the number of customers.

### **NOTICE AND PROTEST**

A notice of the proposed rate increase was mailed to the customers on December 21, 2007. The Division received no letters protesting the increase. A public meeting was held on January 23, 2008. Four customers attended the meeting. The customers indicated they were satisfied with the customer service and water quality was good but that a 65% increase was too large of an increase.

**DISCUSSION**

The Division made an independent analysis of Vista Grande's operations. Appendix A shows Vista Grande's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2008. Vista Grande is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

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

The Division reviewed contract work expenses and determined that the \$12,000 contract work expense was overstated and based on the information received the division recommends \$7,000 for contract work expenses. The Division also determined that employee labor, office salaries and management salaries were understated and based on the information received the Division recommends \$2,000 for employee labor, \$2,000 for office salaries, and \$4,500 for management salaries.

Vista Grande has requested a rate of return of 13.4%. 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 the 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

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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 revenue requirements 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 20% for Class D water utilities. A comparison of the two methods indicates that at 13.25% rate of return, the midpoint of what the A&C Branch recommends, the rate of return method produces a higher revenue requirement; therefore, the Division recommends the rate of return method.

Vista Grande rate structure consists of one schedule: No. 1, General Metered Service. The rates proposed by the Branch are shown in Appendix B. At the recommended rate of return the increase in revenue will be \$21,028 or 44.5% for test year 2008.

At the Division's recommended rates shown in Appendix B, the bill for a  $\frac{3}{4} \times \frac{5}{8}$  metered customer would increase from \$25.67 to \$36.82 or 43.4%. 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**

Vista Grande has no outstanding compliance orders. The utility has been filing annual reports as required. However Vista Grande needs to update its Preliminary Statement, and Form 3, Bill for Service.

**COMMENTS**

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

**FINDINGS**

1. The Division's recommended summary of earnings (Appendix A) are 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. Vista Grande Water System should be required to update its Preliminary Statement, and Form 3, Bill for Service.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Vista Grande Water System, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendix A and B, respectively and concurrently cancel its presently effective Schedule No. 1, General Metered Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Vista Grande Water System is authorized to increase its annual revenues by \$21,028 or 44.5% for test year 2008.
3. Vista Grande Water System is ordered to update its Preliminary Statement, and Form 3, Bill for Service.

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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 June 26, 2008; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

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**VISTA GRANDE WATER SYSTEM  
SUMMARY OF EARNINGS**

Test Year 2008

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<b><u>Operating Revenues</u></b>					
Metered Revenue	\$46,548	\$76,771	\$47,300	\$77,929	\$68,328
Other Revenue	0	0	0	0	0
Total revenue	46,548	76,771	47,300	77,929	68,328
<b><u>Operating Expenses:</u></b>					
Purchased power	11,000	11,000	10,340	10,340	10,340
Other Volume Related	521	521	521	521	521
Employee labor	1,000	1,000	2,000	2,000	2,000
Materials	700	700	700	700	700
Contract work	12,000	12,000	7,000	7,000	7,000
Water testing	1,289	1,289	1,289	1,289	1,289
Transportation expenses	2,783	2,783	2,783	2,783	2,783
Office salaries	0	0	2,000	2,000	2,000
Management	2,000	2,000	4,500	4,500	4,500
Uncollectible expense	52	52	52	52	52
Office services & rentals	2,750	2,750	2,460	2,460	2,460
Office supplies & expenses	1,387	1,387	1,387	1,387	1,387
Professional services	150	150	150	150	150
Insurance	2,028	2,028	2,028	2,028	2,028
Regulatory expense	653	653	653	653	653
General expenses	545	545	545	545	545
Total operating expenses	38,858	38,858	38,408	38,408	38,408
Depreciation expense	3,913	3,913	3,913	3,913	3,913
Taxes Other than Income	2,289	2,289	2,289	2,289	2,289
State taxes	800	2,803	800	2,945	2,097
Federal income taxes	103	4,336	284	4,556	3,243
Total deductions	45,963	52,199	45,694	52,112	49,950
<b>Net Revenue</b>	<b>585</b>	<b>24,572</b>	<b>1,607</b>	<b>25,818</b>	<b>18,378</b>
<b>Rate Base</b>					
Average Plant	183,306	183,306	196,313	196,313	196,313
Aver. Acc. Dep.	0	0	60,776	60,776	60,776
Net Plant	183,306	183,306	135,537	135,537	135,537
Plus: Working Cash	-	-	3,201	3,201	3,201
Materials & supplies	-	-	-	-	-
Less: Contributions	-	-	-	-	-
Rate Base	183,306	30,306	138,738	138,738	138,738
Rate of Return	.32%	13.4%	1.2%	18.6%	13.25%

**(END OF APPENDIX A)**

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APPENDIX B  
Vista Grande Water System  
Schedule No. 1  
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Vista Grande Subdivision and vicinity, located approximately two miles northeast of Red Bluff, Tehama County.

RATES

Quantity Rate:  
All water, per 100 cu.ft. \$ 0.84 (I)

Service Charge:	<u>Per Meter</u> <u>Per Month</u>
For a 5/8 x 3/4 -inch meter	\$ 20.86 (I)
For a 3/4-inch meter	\$ 31.29
For a 1-inch meter	\$ 47.80
For a 1 1/2-inch meter	\$ 59.60 (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 Rates.

SPECIAL CONDITIONS

1. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option be furnished on the account of the landlord or property owner.
2. A late charge will be imposed per schedule No. LC.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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APPENDIX C  
Vista Grande Water System  
Test Year 2008

COMPARISON OF RATES

METERED SERVICE	Per Service Connection Per Month		
	Present Rates	Proposed Rates	Percent Increase
For 5/8 x 3/4- inch meter	\$ 14.46	\$ 20.86	44.3%
For 3/4 inch meter	21.69	31.29	44.3%
For 1 - inch meter	28.92	47.80	65.3%
For 1 1/2 inch meter	\$ 36.16	\$ 59.60	64.8%

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	\$14.46	\$20.86	\$ 6.30	44.3%
10	20.36	29.26	8.90	43.7%
19 (avg.)	25.67	36.82	11.15	43.4%
25	29.21	41.86	12.65	43.3%
30	32.16	46.06	13.90	43.2%

(END OF APPENDIXC)

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APPENDIX D  
VISTA GRANDE WATER SYSTEM  
ADOPTED QUANTITIES  
Test Year 2008

Purchased Power  
Pacific Gas & Electric Co.  
Schedule A-1 Small General Service

Total Energy Cost	\$10,340
Total kWh	56,273
Average Unit Cost \$/kWh	\$ 0.184

Property Tax	2,289
Management Salary	4,500
Employee Labor	2,000
Office Salary	2,000

Service Connections

Meter Size	
5/8 x 3/4 inch	132
3/4 inch	4
1 inch	3
1 1/2 inch	3
Total	<u>142</u>

INCOME TAX CALCULATIONS  
Test Year 2008

Operating Revenues	68,328
Operating Expenses	38,408
Depreciation	3,913
Taxes Other Than Income	2,289
Income Before Taxes	23,718
State Tax	2,097
Federal Tax	3,243
Net Income	18,378

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**(END OF APPENDIX D)**