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AGENDA ITEM #8228

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch**

**RESOLUTION NO. W-4735
January 29, 2009**

R E S O L U T I O N

**(RES. W-4735), HAT CREEK WATER COMPANY (Hat Creek).
ORDER AUTHORIZING A GENERAL RATE INCREASE,
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$4,582
OR 26.6% FOR TEST YEAR 2009.**

SUMMARY

By Draft Advice Letter filed on September 29, 2008, Hat Creek 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 October 7, 2008.

This resolution grants an increase of \$4,582 or 26.6%, for total 2009 test year (TY) revenue of \$21,782 with a resulting return-on-ratebase of 12.75%.

BACKGROUND

Hat Creek, 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 20% or \$3,440 for test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Hat Creek's requests shows 2007 gross revenues of \$17,200, increasing to \$20,640 at proposed rates. Hat Creek is requesting a rate of return of 6.72%.

The present rates were established on June 30, 2008, pursuant to Advice Letter 25, which authorized a 4.1% Consumer Price Index (CPI) increase. The last general rate increase was granted on December 21, 1999, pursuant to Res.W-4177, which authorized a rate increase of \$3,106, or 28%, resulting in a rate of return on rate base of 13.25%.

Hat Creek Water Company serves Old Station and Hat Creek, and the utility is owned by John and Lyla Parrish. John Parrish provides overall management, engineering, and maintenance services. Lyla Parrish is responsible for accounts receivable, billings, banking, bookkeeping, and customer relations.

Hat Creek currently provides metered rate service to 62 customers. The number of customers is not expected to change substantially in the upcoming years, so Hat Creek estimates no additional customers for TY 2009. Of the fifty-five 5/8-inch customers, twenty-six are full time residents while another twenty-six are part-time residents with the remaining three being businesses. The three 1" meters include the Forest Service Camp Ground and Visitor Center, with the third being a resident. The 1-1/2-inch meter is the Rim Rock Ranch Resort that closes for the winter. The two 2-inch meters are for the government including a Forest Service Work Center while one meter is agreed to be charged at the 5/8-inch meter charge. Lastly, the 3-inch meter is provided for Cal-Trans.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on October 14, 2008. The Division and Hat Creek received one email in favor of the rate increase. Hat Creek responded promptly to the email and shared its response with the Division.

An informal public meeting was held on Monday, November 3, 2008, at the Old Station Fire Hall located in Old Station. Four customers attended the meeting. The Division staff explained Commission procedures, as well as the purpose of the meeting. The rest of the meeting consisted of comments and questions by the customers. Most of the questions and comments were general in nature and approved of Hat Creek's revenues, expenses, investments and requested increase. The Division staff and Hat Creek's representatives responded to various questions from the attendees.

DISCUSSION

The Division made an independent analysis of Hat Creek's operations. Appendix A shows Hat Creek's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009. Hat Creek is in agreement with the summary of earnings and the Division's recommended rates shown in Appendices A and B.

The Division staff reviewed operating revenues and expenses including purchased power, other volume related expenses, materials, contract work, water testing, transportation expenses, other plant maintenance, management salaries, office supplies and expenses, professional services, insurance, 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 staff audited actual bills for expenses to make its estimates, and also used a different method for expenses than Hat Creek, who used an estimate of the past recorded year and gave a rough inflation across all expenses. Based on the Division of Ratepayer Advocates memorandum of October 31, 2008, the Division uses a non-labor inflation rate of 0% and a labor inflation rate of 4.3% for the appropriate operating expense.

Hat Creek has requested a rate of return of 6.72%. The Division's Utility Audit and Compliance and Finance Branch (UACFB) 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 methods are to be used. Per (D.) 02-03-093, 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.

UACFB has recommended a rate of margin of 20% for Class D water utilities. A comparison of the two methods indicates that at 12.75% rate of return, the low end of what the UACFB recommends, the rate of return method produces a higher revenue requirement with a sum of \$21,782 as compared to the sum of \$20,951 for the rate of margin method. Therefore, the Division recommends the rate of return method. The Division recommends the low-end of this range, or 12.75%, since Hat Creek's main concern with increasing their rates is the effect on ratepayers as a portion of the customers are seasonal and the utility does not have a large customer base to spread out the increase.

Hat Creek's current rate structure consists of one schedule: 1, General Metered Service. The rates proposed by the Division are shown in Appendix B. At the recommended rate of return the increase in revenue will be \$4,582 or 26.6%, for total 2009 test year revenue of \$21,782 with a resulting return-on-ratebase of 12.75%.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8-inch metered customer using 15 Ccf (One Ccf is equal to one hundred cubic feet) would increase from \$24.05 to \$30.46, which is \$6.41, or 26.6% in test year 2009. 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

Hat Creek has no outstanding compliance orders. The utility has been filing annual reports as required. The California Department of Public Health (DPH) performed the last annual inspection of Hat Creek in June 2006. The findings were that the system has no major deficiencies. DPH confirmed that Hat Creek has not had any major compliance issues. As such, DPH considers Hat Creek to be in compliance with all applicable water quality regulations and standards.

Hat Creek requested modification to Rule 7, Deposits, by deleting Section E, which states that:

Deposits will be place in a savings account at a bank or savings and loan and the interest accrued while held in the savings account will be paid by the utility when the deposit is returned, upon discontinuance of service, or after the deposit has been held for 12 consecutive months, provided service has not discontinued for nonpayment.

Division agrees with this deletion, since Hat Creek does not collect a significant amount in deposits and never exceeds more than \$200, so they are unable to place such small amounts in an interest-bearing account. The Division recommends that Hat Creek also needs to update the following tariff rules: 3 (Application for Service); 5, (Special Information Required on Forms); 7, (Deposits); and 10, (Disputed Bills).

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 of Water and Audits' 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. Hat Creek needs to update the following tariff rules: 3 (Application for Service); 5, (Special Information Required on Forms); 7, (Deposits); and 10, (Disputed Bills).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Hat Creek Water Company, to file an advice letter incorporating the summary of earnings and the revised rate schedule 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. Hat Creek Water Company is authorized to increase its annual revenues by \$4,582 or 26.6%, for test year 2009.
3. Hat Creek Water Company shall update the following tariff rules: 3 (Application for Service); 5, (Special Information Required on Forms); 7, (Deposits); and 10, (Disputed Bills).
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 January 29, 2009; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

Appendix A					
Hat Creek Water Company					
<u>Summary of Earnings</u>					
Test Year 2009					
<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended</u>
	<u>Present</u>	<u>Requested</u>	<u>Present</u>	<u>Requested</u>	
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
<u>Operating Revenue</u>					
General Metered Sales	\$ 17,200	\$ 20,640	\$ 17,200	\$ 20,640	\$ 21,782
Other Unmetered Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 17,200	\$ 20,640	\$ 17,200	\$ 20,640	\$ 21,782
<u>Operating Expenses</u>					
615 Purchased Power	\$1,800	\$1,800	\$ 1,800	\$ 1,800	\$ 1,800
618 Other Volume Related Expenses	\$350	\$350	\$ 419	\$ 419	\$ 419
640 Materials	\$1,200	\$1,200	\$ 1,200	\$ 1,200	\$ 1,200
650 Contract Work	\$500	\$500	\$ 1,141	\$ 1,141	\$ 1,141
Water Testing	\$1,815	\$1,815	\$ 1,500	\$ 1,500	\$ 1,500
660 Transportation Expenses	\$1,200	\$1,200	\$ 991	\$ 991	\$ 991
664 Other Plant Maintenance	\$1,000	\$1,000	\$ 500	\$ 500	\$ 500
671 Management Salaries	\$3,000	\$3,000	\$ 3,000	\$ 3,000	\$ 3,000
681 Office Supplies & Expenses	\$1,620	\$1,620	\$ 1,529	\$ 1,529	\$ 1,529
682 Professional Services	\$0	\$0	\$ 500	\$ 500	\$ 500
684 Insurance	\$1,800	\$1,800	\$ 2,390	\$ 2,390	\$ 2,390
689 General Expenses	\$1,633	\$1,633	\$ 1,633	\$ 1,633	\$ 1,633
Subtotal	\$ 15,918	\$ 15,918	\$ 16,603	\$ 16,603	\$ 16,603
Depreciation	\$ 1,953	\$ 1,953	\$ 1,953	\$ 1,953	\$ 1,953
Taxes other than Income	\$ 191	\$ 191	\$ 200	\$ 200	\$ 200
Income Taxes	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800
Interest					
Total Deductions	\$18,862	\$18,862	\$19,556	\$19,556	\$19,556
Net Revenue	-\$1,662	\$1,778	-\$2,356	\$1,084	\$2,226
<u>Rate Base</u>					
Average Plant	\$ 59,077	\$ 59,077	\$ 59,077	\$ 59,077	\$ 59,077
Ave. Accumulated Depreciation	\$ 32,627	\$ 32,627	\$ 41,627	\$ 41,627	\$ 41,627
Net Plant	\$ 26,450	\$ 26,450	\$ 17,450	\$ 17,450	\$ 17,450
Rate Base:	\$ 26,450	\$ 26,450	\$ 17,450	\$ 17,450	\$ 17,450
Rate of Return	-6.28%	6.72%	-13.50%	6.21%	12.75%

(END OF APPENDIX A)

APPENDIX B

Page 1
Hat Creek Water Company
Schedule No. 1
GENERAL METERED SERVICE
Test Year 2009

APPLICABILITY

Applicable to all metered water service

TERRITORY

The area known as Rim Rock Ranch, Unit No. 1, and vicinity, located near the community of Old Station, Shasta County.

RATES

Quantity Rates:

All water, per 100 cu. ft. \$ 0.860 (I)

Service Charge:

	Per Meter	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 17.54	(I)
For 3/4-inch meter	\$ 25.47	
For 1-inch meter	\$ 31.89	
For 1-1/2-inch meter	\$ 44.72	
For 2-inch meter	\$ 57.55	
For 3-inch meter	\$ 108.83	(I)

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

SPECIAL CONDITIONS

1. In the event that a customer terminates service under this schedule and reinstates service at the same location, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B

Page 2

Hat Creek Water Company

Rule No. 7

DEPOSITS

(continued)

D. Return on Deposits

Upon discontinuance of service, the utility will refund the balance of the customer's deposit in excess of unpaid bills for that service for which the deposit was made.

(D)

(END OF APPENDIX B)

APPENDIX C
 Hat Creek Water Company
Comparison of Rates

Test Year 2009

		<u>Per Service Connection Per Month</u>			
		Present	Recommended	Percent	
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	
Service Charge:					
	For 5/8 x 3/4-inch meters	\$ 13.85	\$17.54	26.6%	
	For 1-inch meters	\$ 25.18	\$31.89	26.6%	
	For 1-1/2-inch meters	\$ 35.31	\$44.72	26.6%	
	For 2-inch meters	\$ 45.44	\$57.55	26.6%	
	For 3-inch meters	\$ 85.94	\$108.83	26.6%	
Quantity Charge:					
Potable Water	All use, per 100 cu. ft. . . .	\$ 0.680	\$0.86	26.6%	
A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:					
Usage	Present	Recommended	Amount	Percent	
<u>100 cu. ft.</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>	
5	17.25	21.85	4.60	26.6%	
10	20.65	26.15	5.50	26.6%	
15 (avg)	24.05	30.46	6.41	26.6%	
20	29.49	37.35	7.86	26.6%	
30	34.25	43.37	9.12	26.6%	
40	41.05	51.99	10.94	26.6%	

(END OF APPENDIX C)

APPENDIX D
Hat Creek Water Company
Adopted Quantities
Test Year 2009

1. Purchased Power		
Total Cost		\$ 1,800
2. Water Sales in Ccf		4,000
3. Payroll		
Management Salaries		\$ 3,000
4. Property Taxes		\$ 200
Service Connections - Meter Size		
5/8 x 3/4"		55
1"		3
1-1/2"		1
2"		2
3"		1
Total Metered		62

Adopted Tax Calculation Test Year 2009

1. Operating Revenues	\$21,782
2. Expenses	\$16,603
3. Depreciation	\$ 1,953
4. Property Taxes	\$ 200
5. Taxable Income for State Tax	\$ 3,026
6. State Tax (min 800)	\$ 800

(END OF APPENDIX D)