PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS **RESOLUTION NO. W-4692**
Water and Sewer Advisory Branch **June 26, 2008**

R E S O L U T I O N

(RES. W-4692), LAS FLORES WATER WORKS (Las Flores). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL REVENUES OF $2,015 OR 7.8% FOR TEST YEAR 2008.

SUMMARY

By Draft Advice Letter filed on November 13, 2007, Las Flores 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 $2,015 or 7.8% which is estimated to provide a rate of return of 13.25%.

BACKGROUND

Las Flores, 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 $2,131 or 8.4% for test year 2008. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Las Flores's requests shows 2008 gross revenues of $25,250 at present rates increasing to $27,380 at proposed rates. Las Flores is requesting a rate of return of 13.4%. The last general rate case for Las Flores was granted on August 23, 2003, by Res. W-4415 which granted an increase of $5,336 or 26.9% with a 12.9% rate of return on rate base

for test year 2002. Res. W-4415 also authorized an additional $604 or 2.4% Consumer Price Index increase for year 2003.

Las Flores serves an unincorporated community of Las Flores, located roughly nine miles south of the City of Red Bluff, Tehama County. Las Flores' service area covers approximately one square mile of territory. Las Flores estimates that it will serve 56 metered customers in test year 2008. The number of customers is not expected to increase.

Las Flores 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 early 1992 and Las Flores' ownership was transferred from Mr. and Mrs. Patterson to the Trust in December 1992.

The Patterson Trust also owns two other water systems: Vista Grande Water System and Mira Monte Water Company. All three water utilities are operated by Mr. Shan Patterson. He is the manager and does the general maintenance; Mrs. Patterson does the office work and they have a part-time employee for meter reading. Any repairs that Mr. Patterson is unable to do are 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; only one customer attended the meeting. The customer requested that another meeting be held in the city of Gerber. That meeting was held on March 13, 2008. Nine customers attended the meeting, most of the customers complained about the lack of water pressure. Mr. Patterson indicated that he had purchased an air system to help the water pump which should improve the water pressure.

DISCUSSION

The Division made an independent analysis of Las Flores' operations. Appendix A shows Las Flores' and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2008. Las Flores 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, employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, 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 upon review of expenses determined that purchased power, other plant maintenance, office salaries and management salaries were understated while contract work was overstated. The Division recommends $4,738 for purchased power, $656 for other plant maintenance, $700 for office salaries, $1,900 for management salaries, and $3,300 for contract work.

Las Flores has requested a rate of return of 13.4%. The Division's Utility Audit, Finance and Compliance Branch (UAF&CB) 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 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. UAF&CB has recommended a rate of margin of 20% for Class D water utilities. A comparison of the two methods indicates that the rate of return method produces a higher revenue requirement; therefore, the Division recommends the rate of return method at 13.25%, the midpoint of UAF&CB recommended rate of return.

Las Flores rate structure consists of one schedule: 1, General Metered Service. The rates proposed by the Water and Sewer Advisory Branch are shown in Appendix B. At the recommended rate of return, the increase in revenue will be $2,015 or 7.8% for test year 2008.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8 x ¾-inch metered residential customer would increase from $38.16 to $41.14 or 7.8%. 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

Las Flores has no outstanding compliance orders. The utility has been filing annual reports as required. However, Las Flores 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. Las Flores 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 Las Flores Water Works, 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 Schedule No. 1, General Metered Service. The effective date of the revised rate schedule shall be five days after the date of its filing.

2. Las Flores Water Works is authorized to increase its annual revenues by $2,015 or 7.8% for test year 2008.

3. Las Flores Water Works is ordered to update its Preliminary Statement, and Form 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 June 26, 2008; the following Commissioners voting favorably thereon:

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PAUL CLANNON
Executive Director

APPENDIX A
LAS FLORES WATER WORKS
SUMMARY OF EARNINGS
Test Year 2008

	Utility Estimated		Division Estimated		Division
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Recommended Rates
Operating Revenues					
Metered Revenue	$25,250	$27,381	$25,780	$27,940	$27,795
Other Revenue	0	0	0	0	0
Total revenue	25,250	27,381	25,780	27,940	27,795
Operating Expenses:					
Purchased power	4,181	4,181	4,738	4,738	4,738
Other volume related	415	415	415	415	415
Employee labor	900	900	900	900	900
Materials	400	400	400	400	400
Contract work	3,600	3,600	3,300	3,300	3,300
Water testing	842	842	700	700	700
Transportation expenses	472	472	472	472	472
Other plant maintenance	412	412	656	656	656
Office salaries	0	0	700	700	700
Management	1,500	1,500	1,900	1,900	1,900
Uncollectibles	50	50	50	50	50
Office services & rentals	1,219	1,219	1,150	1,150	1,150
Office supplies & expenses	615	615	615	615	615
Professional services	150	150	150	150	150
Insurance	1,297	1,297	1,060	1,060	1,060
General expenses	242	242	242	242	242
Total operating expenses	16,650	16,650	17,803	17,803	17,803
Depreciation expense	1,504	1,504	1,504	1,504	1,504
Taxes Other than Income	626	626	626	626	626
State taxes	800	800	800	800	800
Federal income taxes	885	1,139	757	1,081	1,059
Total deductions	20,465	20,719	21,490	21,814	21,792
Net Revenue	4,785	6,662	4,290	6,126	6,003
Rate Base					
Average Plant	N/A	N/A	73,707	73,707	73,707
Aver. Acc. Dep.	N/A	N/A	29,870	29,870	29,870

Net Plant	N/A	N/A	43,837	43,837	43,837
Plus: Working Cash	-	-	1,484	1,484	1,484
Materials & supplies	-	-	-	-	-
Less: Contributions	-	-	-	-	-
Rate Base	49,714	49,714	45,321	45,321	45,321
Rate of Return	9.63%	13.4%	9.5%	13.5%	13.25%

(END OF APPENDIX A)

APPENDIX B
Las Flores Water Works
Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Las Flores, Tehama County.

RATES	Per Meter Per Month
Quantity Rates	
All water, per 100 cu. ft.	$ 1.41 (I)
Service Charge	
For 5/8 x 3/4 – inch meter	$21.40 (I)
For ¾ - inch meter	32.10 |
For 1 – inch meter	53.50 (I)

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 UF.

(END OF APPENDIX B)

APPENDIX C
Las Flores Water Works
Test Year 2008

COMPARISON OF RATES

METERED SERVICE	Per Service Connection Per Month		
	Present Rates	Proposed Rates	Percent Increase
Service Charge:			
For 5/8 x ¾- inch meter	$19.82	$21.40	8.0%
For ¾-inch meter	$29.73	$32.10	8.0%
For 1 – inch meter	$49.55	$53.50	8.0%
Quantity Charge:			
All water, per 100 cu. ft.	$1.31	$1.41	7.6%

Comparison of a monthly typical bill for residential metered customers with a 5/8 x ¾-inch is shown below at current rates and recommended rates for Test Year 2008.

Usage 100 cu. ft	Present Rates	Recommended Rates	Amount of Increase	Percent of Increase
0	$19.82	$21.40	$1.58	8.0%
10	32.92	35.50	2.58	7.8%
14 (avg.)	38.16	41.14	2.98	7.8%
20	46.02	49.60	3.58	7.8%
30	59.12	63.70	4.58	7.7%

(END OF APPENDIX C)

APPENDIX D
Las Flores Water Works
Test Year 2008
ADOPTED QUANTITIES

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

Total Energy Cost	$ 4,738
Total Kwh	29,928
Average Unit Cost $/Kwh	$ 0.158
Property Tax	$ 626
Management Salaries	$1,900
Employee Labor	900
Office Salaries	700

	Service Connections
5/8 x 3/4–inch meter	56
Total	56

Metered water sales used to design rates: 9,514 Ccf

INCOME TAX CALCULATIONS
Test Year 2008

Operating Revenues	27,795
Operating Expenses	17,803
Depreciation	1,504
Taxes Other Than Income	626
Income Before Taxes	7,862
State Tax	800
Federal Tax	1,059
Net Income	6,003
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(END OF APPENDIX D)