

WATER/RSK/PTL/AAS/jlj

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AGENDA ITEM #8961

DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch

RESOLUTION NO. W-4801
November 20, 2009

RESOLUTION

**(RES. W-4801), LLANO DEL RIO WATER COMPANY (Llano).
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC)
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$14,818 OR
9.0% IN TEST YEAR (TY) 2009 AND \$49,670 OR 27.7% FOR
ESCALATION YEAR 2010.**

SUMMARY

Per Draft Advice Letter filed on December 1, 2008, Llano requested an increase in its rates for water service to recover increased expenses and earn adequate return on its plant investment. By means of Advice Letter (AL) 24, the Division of Water and Audits (Division) granted Llano an interim increase of \$29,500 or 50% of break-even subject to refund or increase or pending the outcome of the GRC.

For TY 2009, this resolution grants an increase in gross revenues of \$14,818 or 9.0% and additional annual revenue of \$49,670 or 27.7% for the escalation year 2010. The gross annual revenues are estimated to provide a Rate of Margin (ROM) of 24%.

BACKGROUND

Llano, a Class D water utility, has requested authority under Section VI of 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 rates by \$69,496 or 51%. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. The company has reported absorbing large losses (\$73,289 in 2008, \$65,000 in 2007, and \$50,000 in 2005).

The last GRC became effective on October 18, 1995 per Res. W-3948, which authorized a Rate of Return of 14.25%.

Llano is a subsidiary of Blalock-Eddy, Inc. as is Llano Mutual which is not regulated by the Commission.

Llano sells water to Llano Mutual. If there is not enough water, the supply to the mutual is constrained.

Llano currently serves 186 metered customers, 1 flat rate customer, and an irrigation customer and derives other revenue through resale of water to a Mutual.

Water drains down from the San Bernardino Mountains located to the south. This replenishes wells in a nearby valley. Additional water needed is pumped from a nearby spring by Big Rock Mutual Water Company which is equally owned by Llano del Rio, Llano Mutual and Los Angeles Water and Power Company. The steel mains are about 50 years old.

There are two groups of large consumers. One group is ranchers and the other is a golf course known as Crystalaire Country Club.

Water pressure was tested at the golf course and registered over 100 psi.

NOTICE AND PROTESTS

A notice regarding the general rate increase was mailed to each customer on April 6, 2009. A public meeting was held at the Crystalaire Country Club on May 6, 2009. Eight people attended. No disapproval was expressed.

DISCUSSION

The Division 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. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

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 (D.) 02-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues.

Rate of Margin calculations yielded allowable net revenue for the test year to be \$42,231. Rate of Return calculations yielded allowable net revenue for the test year to be \$20,169. The ROM is the higher level and was chosen.

Rates designed to yield that Rate of Margin increase would result in rate shock for a typical customer as indicated in Appendix C. Therefore, the increase is spread over two years.

For Test Year 2009, this resolution grants an increase in gross revenues of \$14,818 or 9.0% relative to current approved rates and additional annual revenues of \$49,670 or 27.7% for the escalation year 2010.

Staff performed an investigation of the utility's books and formulated a summary of earnings for TY 2009. Appendix A contains both the utility's and Division's estimates for operating revenues, operating expenses, and rate base at present, proposed, and recommended rates for the TY. Appendix B contains the tariff schedules at the recommended rates. Llano is in agreement with the Division's estimates.

A comparison of customer bills for current interim and recommended rates is shown in Appendix C. The projections and tax calculations are shown in Appendix D.

CONSERVATION

A two-tiered rate structure is proposed to achieve water conservation. The second tier quantity of consumption over 26 Ccf per month is based upon the average lowest mid-year level of water consumption in 2008.

COMPLIANCE

There are no outstanding CPUC orders requiring system improvements.

The utility has been filing annual reports as required. However, there is no indication of submission of fees to the Commission.

Llano needs to update the following rules and forms: Title Page; Rules 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; and Forms 2, Application for Service; and 3, Bill for Service.

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Llano also needs to prepare a plan of action to address insufficient fire flow levels and conduct a leak detection program to address conservation concerns and excess power consumption.

COMMENTS

This is an uncontested matter pertaining only to a water corporation. Accordingly, pursuant to Public Utilities Code 311 (g) (3), a period for public review and comment is not required.

Accordingly, pursuant to Public Utilities Code Section 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

FINDINGS

1. Llano Del Rio Water Company is a Class D utility serving 168 residential, 7 golf course, 3 landscaping and 8 Crystallaire Country Club lodge connections in the town of Llano, Los Angeles County. All connections are metered.
2. Additional water is supplied to Llano Mutual Water Company.
3. Llano Del Rio Water Company is a subsidiary of Blalock-Eddy, Inc., as is Llano Mutual which is not regulated by the Commission.
4. By means of Advice Letter (AL) 24, Llano was granted an interim increase of \$29,500 or 50% of break-even.
5. A plan of action is needed to address insufficient fire flow levels.
6. A leak detection survey is needed to address both conservation concerns and excess power consumption costs incurred by pumps.
7. Llano Del Rio Water Company is in agreement with the Division's TY 2009 and escalation year 2010 estimates.
8. The Division recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
9. The rates recommended by the Division (Appendix B) are just and reasonable.

10. The quantities (Appendix D) used to develop the Division recommendations are just and reasonable.

11. Llano needs to update the following in its tariffs: Title Page; Rules 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; and Forms 2, Application for Service; and 3, Bill for Service.

12. Llano should file a Tier 1 Advice Letter on or before December 1, 2010 to implement the escalation rates for 2010, and these rates shall become effective December 1, 2010.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Llano Del Rio Water Company to file an advice letter incorporating the summary of earnings (Appendix A) and the revised rate schedules attached to this resolution as Appendix B, and concurrently cancel its presently effective rate Schedule 1, General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.

2. Llano Del Rio Water Company shall file a Tier 1 Advice Letter on or before December 1, 2010 to implement the escalation rates for 2010, and these rates shall become effective December 1, 2010.

3. Llano Del Rio Water Company is required to produce a Fire Flow Plan approved by the local fire department within 90 days of the effective date of this resolution and provide the results to the Division of Water and Audits.

4. Llano Del Rio Water Company is required to conduct a Leak Detection Survey within 90 days of the effective date of this resolution and provide the results to the Division of Water and Audits.

5. Llano needs to update the following in its tariffs: Title Page; Rules 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; and Forms 2, Application for Service; and 3, Bill for Service.

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6. 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 November 20, 2009; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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Appendix A
Llano Del Rio Water Company
Summary of Earnings - Test Year 2009

	Utility Estimated		Division		
	Present Rates	Requested Amounts	Interim Rates	Recommended TY2009 ROM Rates	Recommended 2010 ROM Rates
Operating Revenues:					
Unmetered Revenue	395	450	450	450	450
Irrigation Revenue	32,610	35,000	35,000	35,000	35,000
Metered Revenue	87,226	93,000	115,928	130,746	180,416
Other Revenue	9,635	13,000	13,000	13,000	13,000
Total Sales	\$129,866	\$141,450	\$164,378	\$179,196	\$228,866
Operating Expenses:					
Purchased Water	9,961	20,000	10,000	10,000	10,000
Purchased Power	42,005	42,000	35,000	35,000	35,000
Other Vol. Rel. Exp.	5,679	5,000	4,500	4,500	4,500
Employee Labor	34,199	36,000	35,500	35,500	35,500
Materials	10,654	7,000	7,000	7,000	7,000
Contract Work	20,888	26,000	19,800	19,800	19,800
Transportation	10,654	13,000	9,400	9,400	9,400
Office salaries	13,776	16,000	14,300	14,300	14,300
Management	13,028	14,000	12,000	12,000	12,000
Uncollectibles	0	100	0	0	0
Office Services & Rentals	2,100	2,100	2,100	2,100	2,100
Office Supplies & Exp	4,024	3,500	3,000	3,000	3,000
Professional Services	15,097	2,500	2,500	2,500	2,500
Insurance	6,445	7,000	6,445	6,445	6,445
Reg. Comm Expense	0	0	3,000	3,000	3,000
General Expenses	3,112	6,500	3,000	3,000	3,000
Total Operating Expenses	\$191,622	\$200,700	\$167,545	\$167,545	\$167,545
Depreciation Expense	8,416	12,000	8,416	8,416	8,416
Taxes other than income	2,518	2,400	2,400	2,400	2,400
CA Franchise Tax	800	800	800	800	3,249
Federal Income Taxes	0	0	0	0	5,025
Total Deductions	\$203,356	\$215,900	\$179,161	\$179,161	\$186,635
Net Operating Income (Loss)	(\$73,490)	(\$74,450)	(\$14,783)	\$35	\$42,231
Avg Plant	420,957	420,957	420,957	420,957	420,957
Avg Accum Depreciation	292,105	292,105	292,105	292,105	292,105
Net Plant	128,853	128,853	128,853	128,853	128,853
Plus: Working Cash	26,295	26,295	26,295	26,295	26,295
Rate Base	\$155,148	\$155,148	\$155,148	\$155,148	\$155,148
Rate of Return	-47%	-48%	-10%	0%	13%
Rate of Margin	-37%	-35%	-8%	0%	24%

(END OF APPENDIX A)

**Appendix B
Llano Del Rio Water Company
Schedule No. 1
GENERAL METERED SERVICE
Test Year 2009**

APPLICABILITY

Applicable to all metered water service with the exception of irrigation service and metered service for resale purposes.

TERRITORY

An area comprising approximately 1,250 acres located in portions of Sections 4,5, and 6, T.4 N., and Sections 31 and 32, T.5 N., all in R.9, S. B. B. & M., and vicinity, near Llano, Los Angeles County.

RATES

	<u>Per Meter Per Month</u>
Quantity Rates	
First 26 hundred cubic feet of water (per Ccf)	\$ 1.19 (I)
All water in excess of 26 Ccf (per Ccf)	\$ 1.55 (I)
Service Charge	
For 1/2- inch meters	\$ 10.00
For 3/4- inch meters	\$ 15.00
For 1- inch meters	\$ 25.50
For 1-1/2- inch meters	\$ 50.00
For 2- inch meters	\$ 80.00

The Service Charge is a readiness-to serve charge, which is applicable to all metered service and to which is added the charge for water used 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. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

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Appendix B
Llano Del Rio Water Company
Schedule No. 1
GENERAL METERED SERVICE
Escalation Year 2010

APPLICABILITY

Applicable to all metered water service with the exception of irrigation service and metered service for resale purposes.

TERRITORY

An area comprising approximately 1,250 acres located in portions of Sections 4,5, and 6, T.4 N., and Sections 31 and 32, T.5 N., all in R.9, S. B. B. & M., and vicinity, near Llano, Los Angeles County.

RATES

	<u>Per Meter Per Month</u>
Quantity Rates	
First 26 hundred cubic feet of water (per Ccf)	\$ 1.19
All water in excess of 26 Ccf (per Ccf)	\$ 1.55
Service Charge	
For 1/2-inch meters	\$ 18.25 (I)
For 3/4-inch meters	\$ 27.37 (I)
For 1-inch meters	\$ 45.61 (I)
For 1-1/2-inch meters	\$ 91.23 (I)
For 2-inch meters	\$145.96 (I)

The Service Charge is a readiness-to serve charge, which is applicable to all metered service and to which is added the charge for water used 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. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C
(Sheet 1 of 2)
Llano Del Rio Water Company
COMPARISON OF RATES
Test Year 2009

		Interim	Recommended	Percent	
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	
Service Charge:					
For 1/2" meters		\$ 10.00	\$ 10.00	0%	
For 3/4" meters		\$ 15.00	\$ 15.00	0%	
For 1" meters		\$ 25.50	\$ 25.50	0%	
For 1-1/2" meters		\$ 50.00	\$ 50.00	0%	
For 2" meters		\$ 80.00	\$ 80.00	0%	
Quantity Charge:					
per Ccf	0 to 30	\$ 0.96			
monthly	over 30	\$ 1.24			
	0 to 26		\$ 1.19	24%	
	over 26		\$ 1.55	24%	
A monthly bill comparison for a customer with a 1" meter in the month of August is shown below:					
Usage		Interim	Recommended	Amount	Percent
<u>Ccf</u>		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
26		\$ 50.46	\$ 56.44	\$ 5.98	12%
30		\$ 54.30	\$ 62.64	\$ 8.34	15%
43		\$ 70.42	\$ 82.79	\$ 12.37	18%

Appendix C
(Sheet 2 of 2)

Llano Del Rio Water Company
COMPARISON OF RATES
Escalation Year 2010

		2009	Recommended	Percent	
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	
Service Charge:					
For 1/2" meters		\$ 10.00	\$ 19.54	95%	
For 3/4" meters		\$ 15.00	\$ 29.31	95%	
For 1" meters		\$ 25.50	\$ 48.85	92%	
For 1-1/2" meters		\$ 50.00	\$ 97.70	95%	
For 2" meters		\$ 80.00	\$ 156.31	95%	
Quantity Charge:					
per Ccf	0 to 26	\$ 1.19	\$ 1.19	0%	
monthly	over 26	\$ 1.55	\$ 1.55	0%	
A monthly bill comparison for a customer with a 1" meter in the month of August is shown below:					
Usage		2009	Recommended	Amount	Percent
<u>Ccf</u>		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
26		\$ 56.44	\$ 79.79	\$ 23.35	41%
43		\$ 82.79	\$ 106.14	\$ 23.35	28%

(END OF APPENDIX C)

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APPENDIX D

Llano Del Rio Water Company

ADOPTED QUANTITIES - Test Year 2009

Purchased Power

For 2008 Southern California Edison

Rate Schedule	PA-1
Total kWh	28,603
Total Cost	\$35,000

Property Taxes \$ 1,376

Service Connections:

Metered	
1/2 "	0
3/4 "	22
1 "	161
1-1/2 "	1
2 "	<u>2</u>
	186

Consumption (2008)	59,089 Ccf	- Metered Customers
	655 AF	- Irrigation Customers
	113 AF	- Resale Customers

Tax Calculations

	<u>2009</u>	<u>2010</u>
Operating revenue	\$179,196	\$228,866
Operating expenses	\$167,545	\$167,545
Depreciation	\$ 8,416	\$ 8,416
Taxes other than income	\$ 2,400	\$ 2,400
Taxable Income	\$ 835	\$ 36,639
State Tax	\$ 800	\$ 3,249
Federal taxable income	\$ 35	\$ 33,390
Federal tax	\$ 0	\$ 5,025

(END OF APPENDIX D)