

WATER/SNR/PTL/LEP: jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4566

October 27, 2005

R E S O L U T I O N

(RES. W-4566), SONORA WATER COMPANY (SONORA) ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING AN ADDITIONAL ANNUAL REVENUE OF \$22,381 OR 16.6% IN TEST YEAR 2005.

SUMMARY

By Draft Advice Letter, filed on December 9, 2004, Sonora seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2005, this resolution grants an increase in gross annual revenues of \$22,381 or 16.6% which is estimated to provide a return of margin of 25%.

BACKGROUND

Sonora, a Class D water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$23,010 or 17% for test year 2005. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Sonora's request shows 2005 gross revenues of \$135,481 at present rates, increasing to \$158,491 at proposed rates. Sonora is requesting a return-on-rate base of 12.9%.

The present rates became effective March 23, 2005, per Decision (D.) 92-03-093 that authorized a consumer price index (CPI) increase of \$4,047 or 3.3%. The last general rate increase (GRC) was granted on January 6, 2000, pursuant to Resolution (Res.) No. W-4184 which authorized an increase of \$22,440 or 27% for test year 2000.

Sonora is a Class D water utility with 105 connections. Sonora is partially owned by Beverly and Bill Brown. Mrs. Brown also manages the company from her home on a part-time basis since she has another full-time job. Mr. Brown reads the meters and performs some of the field work. Sonora is located in an area of mostly rolling hills along Highway 108; the area is known as Fairway Acres and is approximately one mile east of Jamestown in Tuolumne County. The elevations range from 1475 to 2550 feet.

Sonora's water source is the Tuolumne Utility District (TUD) which has proven to be a reliable source. TUD wheels the water to Sonora through a gravity fed system requiring no treatment plant or power expenses. The utility's facilities consist of one 100,000 gallon steel tank for storage and its transportation and distribution system in which mains are 6 and 8 inch cement-asbestos and plastic pipes.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to all water customers of Sonora on May 15, 2005. The Water Division (Division) received one letter signed by twenty residents of Cedar Oaks Senior Mobile Home Park and seven residents of Wigwam Rentals protesting the rate increase. A public meeting was held on Wednesday, June 8, 2005, at 6:30 p.m. at the Mill Villa Recreation Hall at 18717 Mill Villa Rd., Jamestown, CA. The meeting started around 6:40 p.m. Five people attended the meeting, but only four were customers and they were all from the Mill Villa Estates Mobile Home Park.

Mr. Peter Liu, Project Manager, explained Commission the procedure and purpose of the meeting. His presentation was followed by Mrs. Beverly Brown who gave a presentation on the need for a rate increase. Mrs. Brown spoke about the need for a rate increase because of increases in operating expenses. She said that the Tuolumne Utility District had increased its water rates by 28%, water testing had gone up by 43%, labor costs for repairs had gone up by 16%, and there had been extensive repairs made to Cedar Oaks Mobile Home Park.

After the staff and Sonora's presentation, the meeting was opened for questions. The questions were centered on repairs that had not materialized and how difficult it is to contact the utility to report leaks or problems with the system. There were questions as to why it takes from three to four days to fix a water leak. Mrs. Brown said that her husband had an agreement with his boss to leave early when paged because of water problems. They also questioned who owned Sonora, Mrs. Brown clarified the issue; the company is owned by Beverly Brown, Gerrit Malcolm, and Evangeline Summers.

Though an oversight, the company did not notice the private fire protection customer of this rate increase; Division recommends that the rate increase be applied to all service offerings. This resolution includes a 16.6% rate increase for private fire protection.

PROTESTS

There were no formal protests to Sonora's request.

DISCUSSION

The Division made an independent analysis of Sonora's operations and issued its report on September 16, 2005. Appendix A shows Sonora's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2005.

Sonora 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 water, materials, water testing, plant maintenance, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The major differences in Sonora's rate base were in plant and accumulated depreciation and contributions. Division arrived at average plant in service by adding all the additions to the system since the last general rate. Division arrived at its accumulated depreciation estimate by using the Commission-adopted 2.5% depreciation rate and applied that percentage to each year since the last general rate case.

Sonora has requested a rate of return of 12.95%. Sonora is a Class D utility with 105 connections. The Audit and Compliance (A&C) Division recommends a rate of return from 12.65% to 13.65% 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 D.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 25% for Class D water utilities. A comparison of the two methods indicates that the rate of margin method produces a higher revenue requirement of \$156,940 than the rate of return method which produces a revenue requirement of \$121,705; therefore, the Division recommends the rate of margin method.

Sonora's rate structure consists of two schedules: Schedule No. 1A, Annual Metered Service; and Schedule No. 4, Private Fire Protection Service. The Division's proposed metered rate design attempts to comply with the rate design policy for small water companies. D92-02-093 dated March 31, 1992, recommends that Class D water companies can recover up to 100% of fixed costs through the service charge. The proposed rate design recovers approximately 55% of the fixed operating costs in the readiness-to-serve charge. In addition, the service charge allocation by metered size was not in accordance with current policy (January 18, 1991 memo). The Division adjusted the service charge allocation to comply with the current service charge allocation policy. The new rate schedules appear in Appendix B. At the recommended rate of margin, the increase in revenue will be \$22,381 or 16.6% for test year 2005.

At the Division's recommended rates shown in Appendix B, the bill for a typical 5/8 x 3/4-inch metered residential customer using the system average of 1,140 cu. ft. would increase from \$32.60 to \$38.71 per month, a 19% increase. 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

The utility has been filing annual reports as required. However, Sonora needs to update their Preliminary Statement, Rules 3, 5, 10, Form 3 and Connection Fee Data Form. The Compliance Unit shows no outstanding Commission orders.

FINDINGS

1. The Division's recommended Summary of Earnings shown in 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. Sonora should be required to update the following: Preliminary Statement; Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 10, Disputed Bills; Forms 3, Bill for Service; and Connection Fee Data Form.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Sonora Water Company, 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 rate Schedule No. 1A, Annual Metered Service, and Schedule No. 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.

2. Sonora Water Company is authorized to increase its annual revenues by \$22,381 or 16.6% for test year 2005.
3. Sonora Water Company shall update the following rules in its tariff book: Preliminary Statement; Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 10, Disputed Bills; Forms 3, Bill for Service, and Connection Fee Data Form.
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 October 27, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

APPENDIX A

SONORA WATER COMPANY

SUMMARY OF EARNINGS

Test Year 2005

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenues</u>					
Water Sales	\$135,481	\$158,491	\$134,559	\$152,434	\$156,940
<u>Operating Expenses:</u>					
Purchased water	93,192	93,192	82,840	82,840	82,840
Materials	19,985	19,985	6,429	6,429	6,429
Water testing	1,944	1,944	1,944	1,944	1,944
Other plant maintenance	2,399	2,399	800	800	800
Employee pension and benefits	7,000	7,000	0	0	0
Office services & rentals	185	185	185	185	185
Office supplies & expenses	1,879	1,879	1,879	1,879	1,879
Professional services	16,200	16,000	16,000	16,000	16,000
Insurance	5,624	5,624	5,624	5,624	5,624
General expenses	3,373	3,373	1,308	1,308	1,308
Total operating expenses	151,581	151,581	117,009	117,009	117,009
Depreciation expense	1,326	1,326	1,132	1,132	1,132
Property taxes	506	506	506	506	506
State taxes	800	800	1,407	2,987	3,385
Federal income taxes	-	-	2,176	4,620	5,236
Total deductions	154,213	154,213	122,230	126,254	127,268
Net Revenue	-18,732	4,278	12,329	26,180	29,671
<u>Rate Base</u>					
Average Plant	33,166	33,166	57,063	57,063	57,063
Aver. Acc. Dep.	-	-	37,281	37,281	37,281
Net Plant	33,166	33,166	19,782	19,782	19,782
Less: Contributions	0	0	1,769	1,769	1,769
Advances	0	0	0	0	0
Rate Base	33,166	33,166	18,014	18,014	18,014
Rate of Return	-56%	12.9%	68%	145.3%	164.7%
Rate of Margin					25%

(END OF APPENDIX A)

APPENDIX B
Sheet 1

SONORA WATER COMPANY

Schedule No. 1A

ANNUAL METERED SERVICE

Test Year 2005

APPLICABILITY

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

TERRITORY

Fairway Acres and vicinity, located approximately one mile east of Jamestown in Tuolumne County.

RATES

Quantity Rate:

All water, per 100 cu.ft\$ 2.22 (I)

Per Meter
Per Year

Service Charge:

For	5/8x3/4-inch meter.....	\$ 160.80	(I)
For	3/4-inch meter.....	241.20	(R)
For	1-inch meter.....	402.00	(R)
For	1-1/2-inch meter.....	804.00	(I)
For	2-inch meter.....	1,286.00	
For	3-inch meter	2,412.00	
For	4-inch meter	4,020.00	(I)

The annual service charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added this monthly charge computed at the Quantity Rate.

APPENDIX B
Sheet 2
SONORA WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE
Test Year 2005

APPLICABILITY

Applicable to all metered water service furnished to privately-owned fire protection systems.

TERRITORY

Fairway Acres and vicinity, located approximately one mile east of Jamestown in Tuolumne County.

RATES

For each inch of diameter of service connection..... Per Month
\$ 5.26 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum, diameter for fire protection service shall be four inches and the maximum diameter shall not be more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service, does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be used to refund.
4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water and with the cost paid by the applicant. Such payment shall not be subject to refund.

(continued)

(END OF APPENDIX B)

**APPENDIX C
 SONORA WATER COMPANY**

Schedule No. 1A

ANNUAL METERED SERVICE
Test Year 2005

COMPARISON OF RATES

METERED SERVICE	<u>Per Service Connection Per Year</u>		
	Present Rates	Proposed Rates	Percent Increase (Decrease)
Service Charge:			
For 5/8x3/4-inch meter.....	\$ 120.48	\$ 160.80	33%
For 3/4-inch meter.....	287.82	241.20	(16%)
For 1-inch meter.....	512.35	402.00	(22%)
For 1-1/2-inch meter.....	611.33	804.00	32%
For 2-inch meter.....	754.76	1,286.00	70%
For 3-inch meter	913.92	2,412.00	164%
For 4-inch meter	1,246.27	4,020.00	223%
Quantity Rate:			
All water, per 100 cu.ft.	\$ 1.979	\$ 2.22	12%

Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4- inch is shown below at current rates and recommended rates for test year 2005.

<u>Usage</u>	<u>Present Rates</u>	<u>Recommended</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 10.04	\$ 13.40	\$ 3.36	33.5%
5	19.94	24.50	4.56	22.9%
10	29.83	35.60	5.77	19.3%
11.4 Avg.	32.60	38.71	6.11	18.7%
15	39.73	46.70	6.97	17.5%
20	49.62	57.80	8.18	16.5%
25	59.52	68.90	9.38	15.8%

(END OF APPENDIX C)

**APPENDIX D
 SONORA WATER COMPANY**

ADOPTED QUANTITIES

Test Year 2005

1.	Purchased Water	\$82,840
2.	Water Testing	\$ 1,944
3.	Property Tax	\$ 506

Service Connections

Metered Rate

5/8x 3/4-inch	80
3/4-inch	0
1-inch	13
1-1/2-inch	0
2-inch	11
3-inch	1
4-inch	<u>0</u>
 Total Metered	 105

Metered Water Sales 55,100 Ccf

INCOME TAX CALCULATIONS

Test Year 2005

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenues	\$156,940	\$156,940
2.	Operating Expenses	\$117,009	\$117,009
3.	Depreciation	\$ 1,132	\$ 1,132
4.	Property Tax	\$ 506	\$ 506
3.	State Taxable Income	\$ 38,293	
4.	State Tax (@8.84%)	\$ 3,385	\$ 3,385
		=====	=====
5.	Federal Taxable Income		\$ 34,908
6.	Federal Income Tax (@15%)		\$ 5,236
7.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 8,621

(END OF APPENDIX D)