

**DRAFT**

**WATER/JPT/MXK/EYC:jjj**

**AGENDA ITEM #4989**

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

**WATER DIVISION**

**RESOLUTION NO. W-4567**

**October 27, 2005**

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

**(RES. W-4567), COBB MOUNTAIN WATER COMPANY (Cobb Mountain). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$3,391 OR 24.22% IN 2005.**

---

**SUMMARY**

By Draft Advice Letter, filed on April 22, 2005, Cobb Mountain 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 \$3,391 or 24.22%, which is estimated to provide a return on ratebase of 13.4%.

**BACKGROUND**

Cobb Mountain 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 \$3,523 or 25.16%, in Test Year 2005. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Cobb Mountain's request shows gross revenues of \$14,000 at present rates would increase to \$17,523 at proposed rates. Cobb Mountain is requesting a return-on-ratebase of 13.4%.

The present rates became effective on February 15, 2005, pursuant to Res. W-4520, which authorized a one-time surcharge to cover increases in water testing costs producing \$1,266.30 or 10.7% additional annual revenue. The last general rate increase was granted on February 3, 1993 by Resolution (Res.) W-3825 which authorized a gross revenue increase of \$2,280 or 23.8% additional annual revenue.

Cobb Mountain is owned and operated by Mr. Vincent Bruce Anderson. Cobb Mountain provides water service to approximately 62 metered service connections in the service area one mile west of the town of Cobb, in Lake County.

**DRAFT**

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC:jlj

CWC obtains its water supply through ground-water sources via a protected spring. The water system uses three steel storage tanks plumbed in parallel. The total capacity of the three tanks is approximately 25,500 gallons. The water distribution system has one pressure zone served by gravity. The piping is mainly 1.5- to 4- inch diameter galvanized steel pipe.

**NOTICE AND PUBLIC MEETING**

A notice of the proposed general rate increase was mailed to each customer on June 30, 2005. The Water Division (Division) received no letters of complaint regarding the proposed rate increase. During the past five years, no complaints were filed with the Commission's Consumer Services Division against Cobb Mountain.

An informal public meeting was held Saturday, August 6, 2005, at 1:00 pm, at the Mountain Lions Club located in the community of Cobb. The meeting started at 1:00 PM, and adjourned at 2:30PM, with five people in attendance. The Division representative explained Commission procedures, as well as the purpose of the meeting. Cobb Mountain's representative made a presentation to explain the need for the rate increase. The rest of the meeting consisted of comments and questions by the customers. Most of the questions and comments were general in nature and dealt with Cobb Mountain's revenues, expenses, investments and requested increase.

Customers acknowledged that the water quality and pressure are good in the area. They also noted that there had been no unplanned water outages in recent years, and the only instances were for coordinated flushing of the main lines. Generally, customers are satisfied with the performance of the company.

It was noted during the field site visit that Cobb Mountain has no fire hydrants in the system. Division staff verified that the local fire agency has a contract with the California Division of Forestry (CDF) to provide fire protection to customers of Cobb Mountain in case of a fire. CDF Staff is on hand 24 hours a day 7 days a week for emergency contact.

**PROTESTS**

There were no protests to Cobb Mountain's requests.

**DISCUSSION**

The Division made an independent analysis of Cobb Mountain's summary of earnings and issued its report in August 2005. Appendix A shows Cobb Mountain's and the Division's estimates of the summary of earnings at present, requested, and

**DRAFT**

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC:jlj

recommended rates. Appendix A also shows differences in Cobb Mountain's and the Division's estimates in operating revenues, expenses, and rate base. Cobb Mountain was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's findings.

The only difference in expenses was in the power account. The Division estimates were made using actual billings and past-recorded expenses. The Division audited actual bills for property taxes and general expenses to make its estimates, and relied on past recorded amounts and current tariffs. For the power account, the Division applied the latest electric rate schedules for Pacific Gas and Electric Company to determine test year costs.

Cobb Mountain's draft advice letter requested rates that would produce a return-on-ratebase of 13.4%. The Water Division's Audit & Compliance Branch has conducted an analysis of the financial market changes with the last year and the high operational risk faced by Class D water companies and has determined that the appropriate range for return on rate base is 12.65% - 13.65% or the mid point of 13.65%. Division recommends a higher rate of return of 13.4% since the service is very good.

In Decision (D.) 92-03-093, the Commission ordered that both the rate of return on rate base and the rate of margin would be determined and the higher of the two used in the determination of rates for Class and D water utilities. Division performed this comparison and found that the rate of return on rate base provides the higher result of the two methods. Using a rate of return of 13.4%, Water Branch (Branch) calculates a revenue requirement of \$17,391 while the rate of margin of 25% recommended by the Division's Finance and Compliance Branch for Class D water companies would produce a revenue requirement of \$16,297. Therefore, Division recommends that the rate of return on rate base method be used to calculate the profit.

D.92-03-093 allows Class D utilities to recover up to 100% of fixed costs in their readiness to serve charge. The rates shown in Appendix B recover 100% of the utility's fixed cost. Cobb Mountain's current rate structure consists of one schedule: Schedule No. 1A, Annual General Metered Service.

At the Branch's recommended rates shown in Appendix A, the monthly bill for a 5/8 x 3/4-inch metered customer using 5 Ccf (one Ccf equals 100 cubic feet) will increase from \$20.35 to \$25.32 or 24.43%. Bill comparisons are shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

Cobb Mountain seeks to amortize a net under collection in the purchased power balancing account as of December 31, 2004 by adding a surcharge of \$0.98 per customer

**DRAFT**

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC:jlj

for 6 billing periods (12 months) to recover \$362. Division staff reviewed the balancing account calculations and agrees with Cobb Mountain's request. Division recommends that Cobb Mountain be authorized to assess a surcharge of \$0.98 per customer per billing period (bimonthly) for a period of 12 months to recover an under collection in the purchased power balancing account as of December 31, 2004.

Cobb Mountain requested facilities fees for new service connections in order to fund plant improvements, which includes the replacement of a storage tank. Division recommends the implementation of Schedule F, Facilities Fees, and to fund new plant and replacement of existing plant with a \$2,000 facilities fee for a new 5/8 x 3/4-inch service connection. Division recommends funds collected should be placed in interest-bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant. The new rate schedules can be found in Appendix B.

The Division staff audited operating expenses, including purchased power, other volume related, materials, transportation, management salaries, un-collectibles, office supplies and expenses, professional services, insurance, regulatory commission expenses, and general expenses. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included those expenses that were deemed reasonable and prudent.

**COMPLIANCE**

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the Department of Health Services, the utility currently meets all applicable water quality standards. Cobb Mountain's tariff sheets were reviewed by Staff and the following sheets need to be updated: Preliminary Statement for water quality and Department of Health Services' user fees memorandum accounts, and Rule 10, Disputed Bills.

**FINDINGS**

1. The Division's recommended Summary of Earnings (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.

**DRAFT**

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC:jlj

4. The rate increase proposed by the Division is justified. The resulting rates are just and reasonable.
5. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g) (3).
6. The following tariff sheets need to be updated: Preliminary Statement and Rule 10, Disputed Bills.
7. The surcharge for purchased power shall be set at \$0.97 per customer per billing period (bimonthly) for a period of 12 months, to recover an under collection in purchased power balancing account as of December 31, 2004.
8. The Facilities Fees are reasonable to fund plant improvements and should be implemented.
9. Facilities fees collected should be placed in interest-bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.
10. Cobb Mountain should be required to update its Preliminary Statement for water quality and Department of Health Services' user fees and memorandum accounts, and Rule 10, Disputed Bills.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Cobb Mountain 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 General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Cobb Mountain Water Company is authorized to increase its annual revenues by \$3,391 or 24.22%, based on reasonable rates for 2005.
3. Cobb Mountain Water Company is authorized to add Schedule F, Facilities Fees to its tariff schedule. It should also update its Preliminary Statement and Rule 10,

**DRAFT**

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC:jlj

Disputed Bills.

4. Cobb Mountain Water Company is directed to have facilities fees collected placed in an interest bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.
5. Cobb Mountain is ordered to update the Preliminary Statement for water quality and Department of Health Services' user fees memorandum accounts, and Rule 10, Disputed Bills, within 60 days. .
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 October 27, 2005; the following Commissioners voting favorably thereon:

---

STEVE LARSON  
Executive Director

DRAFT

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC/jlj

APPENDIX A

COBB MOUNTAIN WATER COMPANY

SUMMARY OF EARNINGS  
TEST YEAR 2005

Item	Utility Estimated		Branch Estimated		Recommended Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b>Operating Revenue</b>					
Metered Revenue	\$ 14,000	\$ 17,523	\$ 14,000	\$ 17,523	\$ 17,391
Other Water Revenue				\$ -	\$ -
Total Revenue	\$ 14,000	\$ 17,523	\$ 14,000	\$ 17,523	\$ 17,391
<b>Operating Expenses</b>					
Purchased Power	688	688	658	658	658
Purchased Water	0	0	-	-	0
Other Volume Related	116	116	116	116	116
Employee Labor	0	0	-	-	0
Materials	115	115	115	115	115
Contract Work	0	0	-	-	0
Transportation Exp.	510	510	510	510	510
Other Plant Maintenance	0	0	-	-	0
Office Salaries	0	0	-	-	0
Management Salaries	4,980	4,980	4,980	4,980	4,980
Employee Benefits	0	0	-	-	0
Uncollectibles	50	50	50	50	50
Office Services & Rental	0	0	-	-	0
Office Suppl. & Exp.	915	915	915	915	915
Professional Services	1,175	1,175	1,175	1,175	1,175
Insurance	1,732	1,732	1,732	1,732	1,732
Regulatory Comm. Exp.	125	125	125	125	125
General Expenses	744	744	744	744	744
<b>Subtotal</b>	<b>\$11,150</b>	<b>\$11,150</b>	<b>\$11,120</b>	<b>\$11,120</b>	<b>\$11,120</b>
Depreciation Expense	\$700	\$700	\$734	\$734	\$734
Property Taxes	210	210	210	\$210	\$210
Payroll Taxes	0	0	0	\$0	\$0
State Income Tax	800	800	800	800	800
Federal Income Tax	198	699	198	699	679
<b>Total Deductions</b>	<b>\$13,058</b>	<b>\$13,559</b>	<b>\$13,063</b>	<b>\$13,564</b>	<b>\$13,544</b>
<b>Net Revenue</b>	<b>\$942</b>	<b>\$3,964</b>	<b>\$937</b>	<b>\$3,959</b>	<b>\$3,847</b>
<b>Rate Base</b>					
Average Plant	NA	NA	51,609	51,609	51,609
Avr. Accum. Deprec.	NA	NA	24,050	24,050	24,050
Net Plant	NA	NA	27,559	27,559	27,559
Plus: CWIP	NA	NA	0	0	0
Working Cash	NA	NA	0	0	0
Materials & Supplies	NA	NA	1,149	1,149	1,149
Less: CIAC	NA	NA	0	0	0
Advances for Construction	NA	NA	0	0	0
<b>Rate Base</b>	<b>\$29,565</b>	<b>\$29,565</b>	<b>\$28,708</b>	<b>\$28,708</b>	<b>\$28,708</b>
<b>Rate of Return</b>	<b>3.19%</b>	<b>13.41%</b>	<b>3.26%</b>	<b>13.79%</b>	<b>13.40%</b>

\* NA = Not Filed in the Advice Letter

**APPENDIX B**

**Sheet 1**

**Schedule No. 1A**

**ANNUAL GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all services.

**TERRITORY**

The west half of Section 3, Township 11 North, Range 8 West, M.D.B. and M. and vicinity, near Cobb, Lake County.

**RATES**

Quantity Rate:

All water, per 100 cu.ft.....	\$ 1.01	(R)
-------------------------------	---------	-----

Per Meter
<u>Per Year</u>

Annual Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 243.34	(I)
For 3/4-inch meter.....	365.01	
For 1-inch meter.....	608.35	
For 1-1/2-inch meter.....	1,216.70	(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 for water computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months he may elect, at the beginning of the calendar year, to pay prorated service charges on a bimonthly basis in accordance with the utility's established billing periods for water used.

**APPENDIX B**

**Sheet 2**

**Schedule No. 1A**

**(continued)**

**ANNUAL GENERAL METERED SERVICE**

**SPECIAL CONDITIONS** (continued)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service size. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial charge shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial charge shall be due the customer.

**(D)**

3. As authorized by the California Public Utilities Commission, all bills are subject to a surcharge of \$362, to be collected in six equal payments of \$0.98 due at the time of the regular bimonthly billing. This charge offsets the cost of increased power expenses booked in its authorized balancing account.

(N)

|

|

|

(N)

4. 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 utility will, at the utility's option, be furnished to the account of the landlord or property owner.

5. Delinquent bills are subject to the late charges as set forth in Schedule No. LC.

6. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**APPENDIX B**

**Sheet 3**

**Schedule No. F**

**FACILITIES FEES**

**APPLICABILITY**

Applicable to all customers applying for services from the utility in the territory served for premises connected to its distribution mains, for additional service connections to existing premises, and for increase in size of service connections to existing premises.

**TERRITORY**

The west half of Section 3, Township 11 North, Range 8 West, M.D.B. and M. and vicinity, near Cobb, Lake County.

**RATES**

Initial Fee for each Service Connection:

For	5/8 x 3/4-inch meter.....	\$2,000.00
For	3/4-inch meter .....	3,000.00
For	1-inch meter.....	5,000.00

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. These fees **are not** subject to the Public Utility Commission Reimbursement Fee surcharge in Schedule UF.
3. Facilities fees authorized herein shall be deposited within five days of receipt in a separate bank account paying interest. A direct confirmation from the bank shall be mailed to the Director of the Water Division after making such deposit to verify the amount deposited.
4. Facilities fees shall be treated as Contributions-in-Aid-of-Construction and follow the requirements as specified in the Internal Revenue Code Section 118 to qualify as such.
5. Facilities fees shall be accounted for as Contributions-in-Aid-of-Construction in accordance with the Commission's prescribed Uniform System of Accounts. In addition the balance of facilities fees collected, including interest shall be reported in utility's annual report to the Commission.
6. The plant constructed with facilities fees shall be removed from rate base for rate-making purposes.

DRAFT

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC/jlj

APPENDIX C

COBB MOUNTAIN WATER COMPANY

COMPARISON OF RATES  
TEST YEAR 2005

Service Charges:

		Per Service Connection Per Month		
		Present	Recommended	Percent
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
For	5/8 x 3/4 inch meter	\$15.00	\$20.28	35.19%

Quantity Charges:

	All water delivered per 100 cu. ft.	\$1.07	\$1.01	-5.75%
--	-------------------------------------	--------	--------	--------

Comparison of average monthly customer bill at present and authorized rates for a 5/8 x 3/4-inch meter service using various quantities of water:

Usage <u>100 cu.ft.</u>	Present <u>Rates</u>	Recommended <u>Rates</u>	Amount <u>Increase</u>	Percent <u>Increase</u>
0	\$15.00	\$20.28	\$5.28	35.19%
5	\$20.35	\$25.32	\$4.97	24.43%
10	\$25.70	\$30.36	\$4.66	18.14%
15	\$31.05	\$35.41	\$4.36	14.03%
20	\$36.40	\$40.45	\$4.05	11.12%
30	\$47.10	\$50.53	\$3.43	7.29%

**APPENDIX D**

**COBB MOUNTAIN WATER COMPANY**

ADOPTED QUANTITIES  
TEST YEAR 2005

Expenses:

1. Purchased power (Electric)		
Vendor	Pacific Gas & Electric Company	
Schedules	A-1: Small General Service	
	Effective Date	6/1/2005
A-1: Winter Charge		\$0.11778
Summer Charge		\$0.17583
	Total Power Consumption in kWh	3,334
	Total Purchased Power (\$)	\$658
2. Professional Services		
(DHS and EPA Lab Fees included)		\$1,175
3. Ad Valorem Taxes		\$210
Composite Tax Rate		1.00%
4. Number of Service Connections:		
Metered Rate		
5/8 x 3/4-inch service		<u>62</u>
Total		62
6. Water Sales (Ccf) - Metered Customers:		2,285

DRAFT

Resolution W-4567

October 27, 2005

Cobb Mountain/DRAFT AL/JPT/MXK/EYC/jlj

APPENDIX D

COBB MOUNTAIN WATER COMPANY

TEST YEAR 2005

Page 2

ADOPTED QUANTITIES

TEST YEAR 2005

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$17,391	\$17,391
2.	O & M Expenses	\$11,120	\$11,120
3.	Taxes Other Than Income	\$210	\$210
4.	Depreciation	\$734	\$734
5.	Taxable Income for State Tax	\$5,326	
6.	State Tax	\$800	
7.	Taxable Income for FIT		\$4,526
8.	Federal Income Tax		\$679
9.	Total Income Tax		\$1,479
	California Corporate Franchise Rate		8.84%
	Federal Income Tax Rate		
	On first \$50,000 of taxable income		15%