

WATER/SNR/jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4615
November 30, 2006

R E S O L U T I O N

**(RES. W-4615), LIVE OAK SPRINGS WATER COMPANY (LIVE OAK).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING AN ADDITIONAL ANNUAL REVENUE OF \$46,400 OR
320% IN TEST YEAR 2006.**

SUMMARY

By Draft Advice Letter, filed on February 9, 2006, Live Oak Springs Water Company seeks an increase in rates for its water service to recover increased operational expenses and earn an adequate return on its plant investment. The Water Division (Division) accepted this draft advice letter as complete for filing on June 15, 2006.

For Test Year 2006, this resolution grants an increase in gross annual revenues of \$46,400 or 320% which is estimated to provide a return on rate base of 13%. However, in order to reduce the rate shock to the customers, the increase is spread over a two-year period with compensation for delayed recovery of the full amount.

BACKGROUND

Live Oak, 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 \$66,000 or 456% for test year 2006. The purpose of the rate increase is to recover increased operating expenses, comply with the San Diego County Environmental Health Department's water quality requirements and to provide an adequate rate of return on the plant investments. Live Oak's request shows 2006 gross revenues of \$14,487 at present rates increasing to \$80,487 at proposed rates. Live Oak is requesting a rate of return on rate base of 14.0%.

The last general rate case for Live Oak was granted on November 17, 1982 per Resolution (Res.) No. W-3042, which authorized an increase of \$1,820 or 17.9% for test year 1982 with a 10.6% rate of return on rate base of \$2,548. No other rate increase has taken place since 1982.

Live Oak is located in Boulevard, San Diego County. It serves a resort community. The Live Oak system consists of two wells (one is out of operation for necessary work), two well pumps, one booster pump (to be installed in 2006), three storage tanks, and distributions mains. It serves 98-metered customers: 96 residential each with a 3/4" - meter, one mobile home park with a 2" - meter, and one recreational vehicle park with a 1" -meter.

The owner of Live Oak also owns other businesses apart from Live Oak Springs Water Company. The son of the owner manages the water company and the other businesses.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to the customers on May 25, 2006. Several protests were received by the Division. Customers protested mostly about the magnitude of the rate increase and poor management.

A public meeting was held at Live Oak Springs Restaurants, Live Oak Springs, CA on June 27, 2006 at 6:00 P.M. The Division staff, along with the Live Oak manager, conducted the meeting. About 35 customers attended the meeting. Customers protested about the magnitude of the requested rate increase, water quality and the company's record keeping procedures, and they asked questions about water operation matters. Particularly the customers wanted Live Oak to invest in the water infrastructures once it receives authorization for water rate increase. The Division staff explained the rate making process; and, along with the Live Oak manager, addressed customers' concerns.

DISCUSSION

The Division made an independent analysis of Live Oak's operations. Appendix A shows Live Oak's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2006. Live Oak 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 and plant additions. It found that the historical and projected operating expenses and projected plant additions for the test year 2006 to be generally reasonable. However, it took issue with the historical plant additions due to lack of detailed supporting documentation to substantiate the plant addition amounts. The Division staff made appropriate downward adjustments to the plant amounts where deemed reasonable and prudent.

Live Oak did not comply with the Uniform System of Accounts (USOA) prescribed for Class D water companies as required by the Commission. If Live Oak had followed the USOA, it would have removed the inconsistencies reflected in the accounting records as well as reduced staff's examination time.

Live Oak has requested a rate of return of 14.0%. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12.75% to 13.75% for a Class D, 100% equity-financed utility. The Division recommends 13.00% rate of return on rate base for Live Oak. 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 on rate base 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 return 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 return on rate base method produces a higher return; therefore, the Division recommends the rate of return on rate base method.

At WD's recommended rate of return on rate base the increase in revenue will be \$46,400 or 320% for test year 2006. This increase of 320% in one year will create a rate shock to the customers. In order to reduce the rate shock, WD recommends that the rate increase be spread over a period of 24 months. Since spreading of the rate increase over a two-year period will cause a loss of income to Live Oak, WD recommends that Live Oak be compensated for the loss of income through a surcharge over a period of twenty four months beginning twelve months after the effective date of this resolution.

Live Oak's present tariff rate structure consists of two schedules: Schedule No. 1, Metered Service, and Schedule No. 2X, Mobile Home Flat Rate Service. However, Live Oak has converted the flat rate service to metered service and proposes to have one metered rate schedule. The rates proposed by the Branch are shown in Appendices B and C.

At the Division's recommended rates shown in Appendix B, the bill for a 3/4-inch metered residential customer using the system average of 900 cu. ft. of water would increase from \$12.25 to \$31.63 or 158% for 2006. A comparison of customer bills at

present and recommended rates for 2006 and 2007 is shown in Appendix E. The adopted quantities and tax calculations are shown in Appendix D.

FINANCIAL EXAMINATION

The Utility Audit, Finance and Compliance Branch conducted a general rate case financial examination of Live Oak Springs Water Company. Results of the examination required the following recommendations:

1. Live Oak should maintain its accounting records more timely and properly.
2. Live Oak should maintain a work order system to support, document, and justify the plant work performed on its water system.
3. Activities to plant in service (improvements, additions, retirements) should be booked to or reflected in the accounting records.
4. Live Oak should comply with the USOA prescribed by Class D water companies.

COMPLIANCE

Live Oak has no outstanding compliance orders from the Commission. However, it is working closely with the San Diego County Environmental Health Department to correct bacterial problems in one of its wells. The utility did not file its annual reports to the Commission for many years. It filed its 2005 annual report with this general rate increase advice letter. The utility must file its future annual reports regularly as required. Also, Live Oak needs to update the following: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

COMMENTS

Pursuant to PU Code Section 311(g)(1), this resolution is mailed to interested parties for a 30-day public review and comment.

Comments were received from State Senator Denise Ducheny and San Diego County Supervisor Dianne Jacob. They expressed concern that the proposed water rate increase would create a rate shock to the customers and that the rate increase be spread over a longer time period. In addition, they also asked for long-term improvement and maintenance plan for the company's infrastructure as well as monitory of expenditure of utility's funds.

In response to the above comments, the proposed resolution has been modified as follows: (a) the rate increase has been spread over a two-year period, and (b) more monitoring and reporting requirements have been ordered.

FINDINGS

1. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.
2. The revenue increase vis-à-vis rate increase of \$46,000 or 320% in one year as is evident from Appendix A will create a rate shock to the customers.
3. It is reasonable to spread the rate increase over a two-year period to minimize the rate shock.
4. Spreading the rate increase over a two-year period vis-à-vis delaying recovery of a portion of the rate increase by one year will cause a loss of income to Live Oak Springs Water Company.
5. It is reasonable to compensate Live Oak Springs Water Company for the loss of income due to delayed recovery.
6. The rates recommended by the Division (Appendices B and C) are reasonable and should be adopted.
7. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
8. Live Oak Springs Water Company does not maintain its accounting books in accordance with the Commission's Uniform System of Accounts for Class B, C, and D Water Utilities and should be ordered to do so.
9. Live Oak Springs Water Company maintains poor records on its plant additions.
10. For the first time in many years, Live Oak Springs Water Company filed its annual report to the Commission in 2006 with the instant general rate increase advice letter.
11. Live Oak Springs Water Company should be required to file its annual reports to the Commission regularly as required.
12. Live Oak Springs Water Company should be authorized to update the following rules: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Live Oak Springs Water Company to file an advice letter incorporating the summary of earnings and the revised rate Schedule No.1, Metered Service, attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedules Nos. 1, Metered Service, and 2X, Mobile Home Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Live Oak Springs Water Company is authorized to increase its annual revenues by \$46,400 or 320% for test year 2006 in two steps: fifty percent (\$23,200) in the first twelve months, and the remaining fifty percent (\$23,200) in the next twelve months.
3. Live Oak Springs Water Company is authorized to recover \$29,912 through a surcharge per meter per month, for a period of twenty four months, as shown in Appendix C, for the delayed recovery of the full amount of the increase.
4. Live Oak Springs Water Company is authorized to file an advice letter twelve months after the effective date of this resolution to incorporate the additional rate increase and the surcharge contained in Appendix C.
5. Live Oak Springs Water Company shall maintain its accounting books in accordance with the Commission's Uniform System of Accounts for Class B, C and D Water Utilities and shall inform the Commission's Water Division that it has done so by December 31, 2006.
6. Live Oak Springs Water Company shall report to the Water Division by January 31, 2007, the description and costs of plant added during 2006.
7. Live Oak Springs Water Company shall file its future annual reports to the Commission regularly as required.
8. Live Oak Springs Water Company shall update the following rules in its tariff book: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

9. 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 30, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

APPENDIX A
LIVE OAK SPRINGS WATER COMPANY

Summary of Earnings
Test Year 2006

<u>Category</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended Rates ^{1/}</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates ^{1/}</u>	<u>Requested Rates</u>	
<u>Operating Revenues:</u>					
Flat Rate	735	4,084	735	2,450	2,450
Metered	13,752	76,403	13,752	58,437	58,437
Private Fire Protection	0	0	0	0	0
Total	14,487	80,487	14,487	60,887	60,887
<u>Operating Expenses</u>					
Purchased Water	0	0	0	0	0
Purchased Power	5,222	5,222	5,222	5,222	5,222
Purchased Chemicals	0	0	0	0	0
Other Volume Related Expenses	1,023	1,023	1,023	1,023	1,023
Employee Labor	0	0	0	0	0
Materials	0	0	0	0	0
Contract Work	1,312	1,312	1,312	1,312	1,312
Water Testing	0	0	0	0	0
Transportation Expense	887	887	887	887	887
Other Plant Maintenance Expense	1,200	1,200	1,200	1,200	1,200
Office Salaries	0	0	0	0	0
Management Salaries	13,000	13,000	13,000	13,000	13,000
Employee Pension and Benefits	0	0	0	0	0
Uncollectibles	0	0	0	0	0
Office Service & Rentals	2,400	2,400	2,400	2,400	2,400
Office Supplies & Expenses	2,618	2,618	2,470	2,470	2,470
Professional Services	1,938	1,938	1,557	1,557	1,557
Insurance	2,400	2,400	2,400	2,400	2,400
Regulatory Commission Exp.	1,000	1,000	1,000	1,000	1,000
General Expenses	0	0	0	0	0
Total Operating Expenses	33,000	33,000	32,471	32,471	32,471
<u>Total Deductions</u>					
Depreciation Expense	7,111	7,111	7,111	7,831	7,831
Property Taxes	0	0	0	0	0
Interest Expense	11,484	11,484	0	0	0
County X-connection Expenses	749	749	749	749	749
States Income Tax	0	1,582	0	1,753	1,753
Federal Income Tax	0	4,864	0	2,712	2,712
Total Deductions	19,344	25,790	7,860	13,046	13,046
Total Deductions and Expenses	52,344	58,790	40,331	45,517	45,517
Net Revenue	-37,857	21,697	-25,844	15,370	15,370
<u>Rate Base:</u>					
Average Plant	237,029	237,029	178,764	178,764	178,764
Average Depr. Res.	88,508	88,508	66,142	66,142	66,142
Net Plant	148,521	148,521	112,622	112,622	112,622
Add: Materials	200	200	200	200	200
Add: Supplies/working Cash	6,305	6,305	5,411	5,411	5,411
Rate Base	155,026	155,026	118,233	118,233	118,233
Rate of Margin / Rate of Return	N/A	13.50%	N/A	13.00%	13.00%

^{1/} The rate increase of \$46,400 (\$60,887 - \$14,487), difference between revenues at present rates and recommended rates, is to be realized over a two-year period: 50% (\$23,200) upon effective date of this resolution and the remaining 50% (\$23,200) twelve months thereafter (see Ordering Paragraphs #2 and #3 of the resolution).

APPENDIX B
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Live Oak Springs Water Company
Year 2006 Rates

Schedule No. 1
METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Live Oak Springs , San Diego County.

RATES

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.	\$ 0.89	(I)
Over 300 cu.ft., per 100 cu.ft	\$ 1.19	(I)

Service Charge:

	<u>Per Meter</u>	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 14.55	(I)
For 3/4-inch meter	\$ 21.82	
For 1-inch meter	\$ 36.38	
For 1-1/2-inch meter	\$ 72.75	
For 2-inch meter	\$ 116.40	(I)

This Service Charge is a readiness-to-serve charge, which is applied to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the Reimbursement Fee set forth in Schedule No. UF.

APPENDIX C
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Live Oak Springs Water Company
Year 2007 Rates To Be Effective Twelve Months
After The Effective Date of The Year 2006 Rates

Schedule No. 1
METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Live Oak Springs, San Diego county.

RATES

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.	\$ 1.90 (I)
Over 300 cu.ft., per 100 cu.ft.	\$ 2.36 (I)

Service Charge:

	Per Meter Per Month	Surcharge Per Meter Per Month <u>for 24 months</u>
For 5/8 x 3/4-inch meter	\$ 20.50 (I)	\$ 8.06
For 3/4-inch meter	\$ 30.75	12.10
For 1-inch meter	\$ 51.25	20.16
For 1-1/2-inch meter	\$ 102.50	40.33
For 2-inch meter	\$ 164.00 (I)	64.53

This Service Charge is a readiness-to-serve charge, which is applied to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the Reimbursement Fee set forth in Schedule No. UF.

APPENDIX D
Live Oak Springs Water Company

Adopted Quantities
Test Year 2006

Purchased Power	\$5,222
kWh	38,211
Management Salary	\$13,000
Water Consumption In Ccf	10,730
Service Connections:	
Metered Size	
5/8 x 3/4 -inch	0
3/4-inch	96
1-inch	1
1-1/2-inch	0
2-inch	1
Total	<hr/> 98

INCOME TAX CALCULATIONS
Test Year 2006

Operating Revenues	\$60,887
Operating Expenses	\$32,471
Depreciation	\$ 7,831
Taxes Other Than Income (County cross connection fee)	\$ 749
Income Before Taxes	\$19,836
State Tax	\$ 1,753
Federal Tax	\$ 2,712
Net Income	\$15,370

APPENDIX E
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Live Oak Springs Water Company
Test Year 2006

COMPARISON OF RATES: First Increase (2006 Rates)

Service Charge:	Per Meter		
	Present Rates	First Increase Rates	Percent Increase
For 5/8 x 3/4-inch meter	\$ 6.50	\$ 14.55	124%
For 3/4-inch meter	7.15	21.82	205%
For 1-inch	9.75	36.38	273%
For 1-1/2-inch meter	13.65	72.75	433%
For 2-inch meter	17.55	116.40	563%

Quantity Rate:

First 300 cu.ft., per 100 cu.ft.	\$0.50	\$0.89	78%
Over 300 cu.ft., per 100 cu.ft.	\$0.60	\$1.19	98%

Comparison of a monthly typical bill for residential metered customers with a 3/4 inch is shown below at current rates and recommended rates for test year 2006:

<u>Usage</u>	<u>Present</u>	<u>Recommended</u>	<u>Increase</u>	<u>Percent</u>
0	\$ 7.15	\$ 21.82	\$ 14.67	205%
5	9.85	26.87	17.02	173%
9 Avg.	12.25	31.63	19.38	158%
10	12.85	32.82	19.97	155%
15	15.85	38.77	22.92	145%

APPENDIX E
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Live Oak Springs Water Company

COMPARISON OF RATES: Second Increase (2007 Rates)

Service Charge:	Per Meter			
	Year 2006 Rates	Year 2007 Rates	Percent Increase	Surcharge for 24 months
For 5/8 x 3/4-inch meter	\$ 14.55	\$ 20.50	41%	\$ 8.06
For 3/4-inch meter	21.82	30.75	41%	12.10
For 1-inch	36.38	51.25	41%	20.16
For 1-1/2-inch meter	72.75	102.50	41%	40.33
For 2-inch meter	116.40	164.00	41%	64.53

Quantity Rate:

First 300 cu.ft., per 100 cu.ft.	\$ 0.89	\$ 1.90	113%
Over 300 cu.ft., per 100 cu.ft.	\$ 1.19	\$ 2.36	98%

Comparison of a monthly typical bill for residential metered customers with a 3/4 inch is shown below at current rates and recommended rates for test year 2007:

Without Surcharge

<u>Usage</u>	<u>Present</u>	<u>Recommended</u>	<u>Increase</u>	<u>Percent</u>
0	\$ 21.82	\$ 30.75	\$ 8.93	41%
5	26.87	41.17	14.30	53%
9 Avg.	31.63	50.61	18.98	60%
10	32.82	52.97	20.15	53%
15	38.77	64.77	26.00	67%

With Surcharge

<u>Usage</u>	<u>Present</u>	<u>Recommended</u>	<u>Increase</u>	<u>Percent</u>
0	\$ 21.82	\$ 42.85	\$ 21.03	96%
5	26.87	53.27	26.40	98%
9 Avg.	31.63	62.71	31.08	98%
10	32.82	65.07	32.25	100%
15	38.77	76.87	38.10	98%