

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



June 30, 2009

File No.: 602-19

TO: All Interested Parties

Enclosed is draft Resolution W-4777 of the Division of Water and Audits. It will be on the Commission's July 30, 2009 agenda. The Commission may then act on this Resolution or it may postpone action until later.

When the Commission acts on the draft resolution, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare a different resolution. Only when the Commission acts does the resolution become binding on the parties.

Parties to this matter may file comments on this draft resolution. An original and 2 copies of the comments, with a certificate of service, should be submitted to:

Division of Water and Audits, Third Floor
Attention: Martin Bragen
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Parties may submit comments on or before July 20, 2009. The date of submission is the date the comments are received by the Division of Water and Audits. Parties must serve a copy of their comments on Sonoma Springs Water Company, LLC on the same date that the comments are submitted to the Division of Water and Audits.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft resolution, a table of authorities and appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the draft resolution, and shall make specific reference to the record or applicable law. Comments which fail to do so will be accorded no weight and are not to be submitted.

Persons interested in comments of parties may write to Martin Bragen or telephone him at (415) 703-2276.

/s/ RAMI KAHLON

Rami Kahlon, Director
Division of Water and Audits

Enclosures: Draft Resolution W-4777
Certificate of Service
Service List

DRAFT

AGENDA ITEM #8671

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch**

**RESOLUTION W-4777
July 30, 2009**

R E S O L U T I O N

**(RES. W-4777), SONOMA SPRINGS WATER COMPANY, LLC
(Sonoma Springs). ORDER AUTHORIZING A GENERAL RATE
INCREASE (GRC) PRODUCING ADDITIONAL ANNUAL
REVENUE OF \$11,638 OR 110.2% IN 2009.**

SUMMARY

This Resolution grants Sonoma Springs an increase in gross annual revenue of \$11,638 or 110.2%, for test year 2009. The increase will provide a 24% return on margin for Test Year 2009.

BACKGROUND

Sonoma Springs, by informal advice letter, 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 \$19,703 or 214% in Test Year 2009. Sonoma Springs' request shows year 2009 gross revenue of \$9,200 at present rates increasing to \$28,903 at proposed rates to produce a 24% return on margin.

Sonoma Springs' present rates became effective on September 1, 2008, pursuant to Decision (D.) 92-03-093 and Res. W-4540. The last general rate increase (GRC) was granted on April 26, 1989, pursuant to Res. W-3443.

SYSTEM DESCRIPTION

Sonoma Springs is a Class D water utility serving approximately 21 metered residential customers and one commercial customer in the subdivision known as Morton's Warm Springs (Morton's), a service area one mile west of Glen Ellen, California, in Sonoma Springs County. The system was declared a public utility in D.88-01-015 on January 13, 1988.

The well at Morton's has two pumps, two production lines and two electric meters. One of these production lines provides drinking water for Sonoma Springs and supplies two hydrants. Water is pumped uphill to a cone-bottomed concrete tank built in 1907 and flows downward to serve customers. Morton's intends to replace the tank in the near future.

DISCUSSION

In 1988 when the Commission declared it a public utility, Sonoma Springs was Los Guilicos Water Works. Later in 1998 the water company was sold with Commission approval to a new owner of the resort, and became Glen Ellen Water Co., LLC. In 2001 the water company was sold with Commission approval to a new owner of the resort and became Sonoma Springs Water Company, LLC. In 2004 the Commission approved Sonoma Springs' sale to its current owner, Bernard J. MacElhenny.

The owner of Morton's resort is also the owner of Sonoma Springs. The water company has been providing service as an element Morton's since the utility's existence. Morton's has always subsidized the water company's operation, but Mr. MacElhenny wants the water company to be financially independent.

As stated in GRC Res. W-3443 of April 26, 1989, Morton's did not keep separate accounting records for the utility. Until 2009 the utility still did not keep all its expenses separated from those of Morton's. Sonoma Springs' estimates of plant in service and of expenses were questionable in 1989, and are questionable today.

Due to frequent changes of ownership and water company personnel, until this year Sonoma Springs has not kept separate utility accounting records in accordance with the Uniform System of Accounts. Expenses for property tax, employee labor, management salaries, transportation, office services & rentals, and office supplies & expenses had all been estimated as a portion of Morton's expenses. This year the company began keeping separate records of those expenses.

The company's existing metered tariff has annual rates; Sonoma Springs has been reading meters and billing customers on a quarterly basis. With this rate increase, the utility will change to monthly meter reading and monthly billing.

SUMMARY OF EARNINGS

The Water and Sewer Advisory Branch (Branch) made an independent analysis of Sonoma Springs's summary of earnings. Appendix A shows Sonoma Springs's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates for Test Year 2009. The final column shows the revenues and expenses adopted by the Commission.

Branch's estimate of revenues at proposed rates is \$1,826 less than Sonoma Springs's because Sonoma Springs's estimates of employee labor, management salary, and non-income taxes are more than the Branch's estimate.

REVENUES AT PRESENT RATES

Sonoma Springs estimated revenues of \$9,200 at present rates, and Branch estimated \$10,566 at present rates. Branch included revenues for water sold to Morton's in its estimate of revenues at current rates and in setting new rates. The revenue which would have been paid if Morton's were an independent customer must be shown; otherwise, the other water company customers would be subsidizing the resort.

OPERATING EXPENSES

Because the utility estimated expenses for property tax, employee labor, management salaries, transportation, office services & rentals, and office supplies & expenses rather than keeping records of the amount of time spent on these items, Branch compared Sonoma Springs estimates with costs for companies of similar size and situations. Sonoma Springs's first estimate of operating expenses and pre-income-tax deductions was \$6,122 more than the Branch estimate; after discussion of comparable costs for similar utilities, Sonoma Springs lowered their estimate to \$1,826 more than the Branch estimate.

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Account 630 – Employee Labor

Sonoma Springs's estimated employee labor cost for 2009 is \$3,000, including maintenance and meter reading. The employee's primary duty is maintenance of Morton's facilities. The Branch estimate is \$2,400, based on reading 22 meters every month, plus maintenance work. Sonoma Springs will begin recording employee labor for the water company separately from work on Morton's facilities. This should be reviewed at the time of the next GRC.

Account 650 – Contract Work

Sonoma Springs estimated \$4,524 for contract work. The Branch agrees. The contract work includes \$300 per month for the services of a State-certified water treatment plant operator, plus water testing costs.

Account 671 – Management Salaries

Sonoma Springs's estimated management salary for 2009 is \$3,000, including doing the office work for the water company. The manager's primary duty is management of Morton's Warm Springs. The Branch estimate is \$2,400, based on logging meter readings and billing 21 customers every month, plus other water system management tasks. Sonoma Springs will begin recording management time for the water company separately from work on Morton's. This should be reviewed at the time of the next GRC.

Account 408 – Taxes Other Than Income Taxes

Sonoma Springs estimated \$950 for taxes other than income taxes. Branch estimated \$726, based on total payroll taxes of 12.35% plus property tax of 1% on undepreciated plant in service.

Account 409 – Income Taxes

Sonoma Springs's income tax estimate is \$60 more than the Branch estimate, due to higher revenues.

UTILITY CONCURRENCE

Sonoma Springs has reviewed Branch's proposed expenses and deductions, and agrees that they are reasonable.

FIELD INVESTIGATION

On November 18, 2008, Branch inspected the Sonoma Springs service area, and saw the company's well site, pump, storage tank, and hydrants.

NOTICE TO CUSTOMERS

A Notice to Customers of Proposed Rate Increase and Public Meeting was circulated to customers. The Notice told of the amount of the proposed rate increase, and the increase for the different size meters.

CUSTOMER COMPLAINTS

The Commission has not received any complaints.

PUBLIC MEETING

A public meeting was held on May 22, 2009. Ten customers attended. One objected to the very large increase in service charge for a 3/4-inch meter. She was told that all customers would have 5/8 X 3/4-inch meters by the time the new rates went into effect. Sonoma Springs told of recent repairs, and plans for the future. Another customer asked if her home could be served by a different water company.

RATE DESIGN

Sonoma Springs present service charges do not meet current Commission policy, which states that service charges should be based on meter flow capacity. Compared to 5/8-X 3/4-inch service charges, 3/4-inch charges should be 1.5 times as large; 1-inch rates should be 2.5 times as large; 1-1/2-inch rates should be 5 times as large; and 2-inch rates should be 8 times as large. The Branch has proposed new service charges with these ratios. At the request of the utility, service charges have been changed to a monthly basis.

RATE OF RETURN ON RATE BASE

Sonoma Springs has a rate base of \$13,356. For 2009 the Water and Audits Division's Utility Audit, Finance and Compliance Branch (UAFCB) recommends a rate of return on rate base of between 12.75% and 13.75% for Class D utilities such as Sonoma Springs. This would make Sonoma Springs eligible for a return of \$1,703 to \$1,836.

RATE OF MARGIN

UAFCB recommends a rate of margin of 24% for Class D water companies. The rate of margin is a percentage of the sum of operating expenses plus taxes and depreciation. A 24% rate of margin for Sonoma Springs would return \$4,006.

RATE OF MARGIN SELECTED

As required by the Commission in Res. W-4524 (March 17, 2005), both Rate of Return on Rate Base and Rate of Margin must be calculated. D.92-03-093 (March 31, 1992) requires that Branch recommend the option which gives the water company the greater return. Rate of Margin has been selected because it will provide the greater revenue to the utility.

COMPARISON WITH CLOSEST UTILITY

The nearby Commission-regulated Kenwood Village Water Company, with 304 customers, has a service charge of \$38.86 per month for a 5/8-inch X 3/4-inch meter, plus a SDWBA surcharge of \$9.02, a total of \$47.88 per month in fixed costs. The first 500 cubic feet (5 Ccf) of water per month costs \$2.039 per Ccf, and all water over 5 Ccf costs \$2.370 per Ccf. At Kenwood rates the average Sonoma Springs customer with 5/8-inch X 3/4-inch meter would pay \$63.20 per month. With the rates adopted by this Resolution, the average Sonoma Springs' customer with 5/8-inch x 3/4-inch meter will pay \$66.94. Considering the relative sizes of the two utilities, the adopted rates are reasonable.

COMMENTS

Customers were told in the Notice of the opportunity for comment, and at the Public Meeting, of the opportunity to see the Branch report prepared for Commission approval. One customer objected to the rate increase, saying the differences between labor for the water company and for Morton's had not been clearly defined. This issue is discussed in the Resolution.

In accordance with PU Code Section 311(g), copies of this Draft Resolution will be served on all parties who submitted comments in writing (including by e-mail). The service list is attached. Comments on this Draft Resolution were received from

_____.

TARIFF SHEETS OUT OF DATE

Sonoma Springs's tariff book is out of date. The following tariff rules and forms need to be revised or added to the tariff book: Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 20, Water Conservation; Rule 21, Fire Protection; and Forms 2, Customer's Deposit Receipt, and 3, Bill for Service. The Branch will prepare revised or new tariff rules and forms, and send them to the utility for signature.

FINDINGS AND CONCLUSIONS

1. Sonoma Springs Water Company is a Class D water utility serving approximately 21 metered residential customers and one commercial customer in the subdivision known as Morton's Warm Springs, a service area one mile west of Glen Ellen, California, in Sonoma Springs County.
2. Sonoma Springs Water Company and Morton's Warm Springs resort are owned by the same owner.
3. Revenues from water sold to Morton's Warm Springs resort are included in setting new rates.
4. Water and Sewer Advisory Branch's estimate of employee labor is based on 22 monthly meter reads plus maintenance work.

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5. Contract work is based on the services of a State-certified treatment plant operator plus water testing costs.
6. Until 2009 Sonoma Springs Water Company did not keep accounting records for the utility separate and apart from Morton's Warm Springs resort for many expense items.
7. Water and Sewer Advisory Branch estimated management salaries, transportation, office services & rentals, and office supplies & expenses based on costs for companies of similar size and situation.
8. Water and Sewer Advisory Branch's estimate of taxes other than income taxes is based on total payroll taxes of 12.35% plus property tax of 1% on undepreciated plant in service.
9. Sonoma Springs Water Company has reviewed the Water and Sewer Advisory Branch's proposed expenses and deductions, and agrees that they are reasonable.
10. The rate of margin used is based on Water and Audits Division's Audit, Finance and Compliance Branch's recommendation for Class D water companies.
11. The rate of margin has been selected because it will provide the greater revenue to the utility pursuant to Commission Decision 92-03-093.
12. The rates adopted by this resolution are consistent with one similarly-situated water utility in the area.
13. The monthly service charge is based on meter flow capacity consistent with current Commission policy.
14. Proposed service charges shown in Appendix B have been changed to a monthly basis at the request of Sonoma Springs Water Company.
15. This is a potentially contested matter. Sonoma Springs Water Company concurs with Water and Sewer Advisory Branch's recommendations. Pursuant to Public Utilities Code 311(g) (2), the Draft Resolution was circulated to customers who provided written comment to the notice for public review and comment.
16. The Water and Sewer Advisory Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
17. The rate increase proposed by the Water and Sewer Advisory Branch is justified and the resulting rates are just and reasonable.
18. The rates proposed by the Water and Sewer Advisory Branch (Appendix B) are reasonable and should be adopted.
19. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.

20. Sonoma Springs Company's tariff book should add or replace the following tariffs: Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 20, Water Conservation; Rule 21, Fire Protection; and Forms 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 Sonoma Springs Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1A, General Metered Service. The effective date of the revised schedule shall be five days after the date of filing.
2. Sonoma Springs Water Company is authorized to increase its annual revenues by \$11,638 or 110.2% for test year 2009.
3. Sonoma Springs Water Company LLC is ordered to add current sheets to the tariff book for: Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 20, Water Conservation; Rule 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

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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 July 30, 2009; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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APPENDIX A
SONOMA SPRINGS WATER COMPANY
SUMMARY OF EARNINGS
TEST YEAR 2009

	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Unmetered Revenue	0	0	0	0	0
Fire Protection Revenue	0	0	0	0	0
Metered Revenue	9,200	24,030	10,566	22,204	22,204
Other Revenue	0	0	0	0	0
Total Revenue	9,200	24,030	10,566	22,204	22,204
Operating Expenses					
Purchased Power	850	850	850	850	850
Other Volume Related Expenses	0	0	0	0	0
Employee Labor	3,000	3,000	2,400	2,400	2,400
Materials	500	500	500	500	500
Contract Work	4,524	4,524	4,524	4,524	4,524
Transportation Expense	400	400	400	400	400
Other Plant Maintenance	300	300	300	300	300
Office Salaries	0	0	0	0	0
Management Salaries	3,000	3,000	2,400	2,400	2,400
Employee Pensions and Benefits	0	0	0	0	0
Uncollectable Expense	0	0	0	0	0
Office Supplies Expense	784	784	784	784	784
Professional Services	1,000	1,000	1,000	1,000	1,000
Insurance	1,500	1,500	1,500	1,500	1,500
Regulatory Commission Expense	0	0	0	0	0
General Expense	300	0	300	300	300
Total Operating Expenses	16,158	16,158	14,958	14,958	14,958
Depreciation Expense	1,007	1,007	1,007	1,007	1,007
Taxes Other Than Income Taxes	950	950	726	726	726
Income Taxes	800	1,567	800	1,507	1,507
Total Deductions	18,915	19,682	17,491	18,198	18,198
Net Income	(9,715)	4,348	(6,926)	4,006	4,006
Rate Base					
Average Plant	45,790	45,790	45,790	45,790	45,790
Avg. Accumulated Depreciation	(32,434)	(32,434)	(32,434)	(32,434)	(32,434)
Net Plant	13,356	13,356	13,356	13,356	13,356
Add: Materials	0	0	0	0	0
Working Cash	0	0	0	0	0
Less: Contributions	0	0	0	0	0
Advances	0	0	0	0	0
Rate Base	13,356	13,356	13,356	13,356	13,356
Rate Of Return	-72.74%	32.55%	-51.85%	29.99%	29.99%
Rate Of Margin Amount	4,348	4,348	4,006	4,006	4,006
Rate Of Margin Percent	24%	24%	24%	24%	24%

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APPENDIX B
PAGE 1
SONOMA SPRINGS WATER CO.

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In the subdivision known as Morton's Warm Springs Resort, located 2-1/2 miles south of Kenwood, Sonoma Springs County, California.

RATES

Quantity Rates:			
	All water, per 1000 gallons	\$6.853	(I)
Service Charge			
		<u>Per Meter Per</u> <u>Month</u>	
	5/8 x 3/4-inch meter		
For	.....	30.25	(I)
	3/4-inch meter		
For	.....	45.38	|
	1-inch meter		
For	.....	75.63	|
	1-1/2-inch meter		
For	.....	151.25	|
	2-inch meter		
For	.....	242.00	(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 computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule UF.

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APPENDIX C
SONOMA SPRINGSWATER CO.
COMPARISON OF RATES

METERED RATES

	Previous Rate		New Rate	Percent Increase
For 5/8 x 3/4-inch meter	15.16	*	30.25	99.5%
For 3/4-inch meter	16.52		45.38	174.7%
For 1-inch meter	22.74		75.63	232.5%
For 1-1/2-inch meter	30.33		151.25	398.8%
For 2-inch meter	40.89		242.00	491.9%
All water, per 1000 gallons	3.425		6.853	100.1%

*The previous rate shown is 1/12 of the previous annual rate.

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a copy of draft Resolution W-4777 on all parties in these filings or their attorneys as shown on the attached list.

Dated June 30, 2009, at San Francisco, California.

/s/ Josie L. Jones

JOSIE L. JONES

Parties should notify the Division of Water and Audits, Public Utilities Commission, 505 Van Ness Avenue, Room 3106, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number of the service list on which your name appears.

SERVICE LIST
DRAFT RESOLUTION W-4777

Lee Walker
1693 Warm Springs Road
Glen Ellen, CA 95442

Marian Seiter, Manager
Sonoma Springs Water Co., LLC
1651 Warm Springs Road
Glen Ellen, CA 94503

Valley of the Moon Water District
P.O. Box 280
El Verano, CA 95433-0280

Bob Maes
Kinneybrook Mutual
P.O. Box 1234
Kenwood, CA 95452

Karen Ball
Kenwood Water Co.
4984 Sonoma Springs Highway
Santa Rosa, CA 95409-4247