



January 25, 2011

Draft Resolution W-4869
Agenda ID #10101

TO: All Interested Persons

Enclosed is draft Resolution W-4869 of the Division of Water and Audits entitled Wendell Water Company's request for a general rate increase and to establish a facilities fees rate schedule for new service connections. Draft Resolution W-4869 will be on the Commission's February 24, 2011 agenda. The Commission may act then on this resolution or it may postpone action until later.

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

Interested persons may submit comments on draft Resolution W-4869. An original of the comments, with a certificate of service, should be submitted to:

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

Interested persons must serve a written or electronic copy of their comments on the utility on the same date that the comments are submitted to the Division of Water and Audits. Interested persons may submit comments on or before February 14, 2011.

Comments should focus on factual, legal, or technical errors or policy issues in the draft resolution.

Persons interested in receiving comments submitted to the Division of Water and Audits may write to Carolina Contreras, email her at cgc@cpuc.ca.gov, or telephone her at (415) 703-5090.

/s/ RAMI S. KAHLON
Rami S. Kahlon, Director
Division of Water and Audits

Enclosures: Draft Resolution W-4869
Certificate of Service
Service List

DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch

RESOLUTION NO. W-4869
February 24, 2011

RESOLUTION

(RES. W-4869), WENDELL WATER COMPANY (WENDELL). ORDER AUTHORIZING GENERAL RATE INCREASE (GRC), PRODUCING ADDITIONAL ANNUAL REVENUE OF \$1,467 OR 8.1% FOR TEST YEAR (TY) 2010 AND FACILITIES FEES.

SUMMARY

By Advice Letter (AL) 29 filed on August 11, 2010, Wendell seeks to increase its rates for water service to recover operating expenses and to establish a Facilities Fee Schedule for new service connections not previously served by Wendell.

For TY 2010, this Resolution orders an increase in gross revenues of \$1,461 or 8.1%, which is estimated to provide adequate revenue to cover Wendell's expenses and taxes. Wendell's plant is fully depreciated and is being operated by a receiver, thus the recommended increase does not yield any net revenues. Authority to establish Facilities Fees is also granted.

BACKGROUND

Wendell is a Class D water utility that as of October 1, 2007 has been operated by Weeks & Drilling Pump Co. (Weeks), a court-appointed receiver. Wendell is requesting authority under Rule 7.6.2 of General Order 96-B, Water Industry Rule 7.3.3 (5), and Section 454 of the Public Utilities Code to increase its rates by \$9,179 or 56.4%. The purpose of the rate increase is to recover increased operating expenses. Although AL 29 notes that due to the receivership status no return on investment was requested, Wendell's workpapers indicate otherwise. Wendell's request shows 2010 gross revenues of \$16,274 at present rates increasing to \$25,453 at the proposed rates, which includes a return on investment of 13.50%. Wendell's request also includes Facilities Fees of \$5,000 per each service connection.

Wendell's current rates became effective on July 13, 2010, by approval of AL 28 which requested an interim rate increase corresponding to the Consumer Price Index for 2009 of 2.7%, and which is subject to refund, up or down, as determined by the final rates approved herein. As Wendell's interim rates were approved prior to submittal of the current GRC AL, any surcharge request to recover undercollected revenues must be calculated from the date AL 29 was filed – August, 11, 2010 - and the date the rates approved herein become effective. The last GRC became effective on June 26, 2008, pursuant to Res. W-4695, which granted an increase in revenues of \$8,633 or 95% for TY 2008.

Wendell provides metered service to 25 residential customers residing on Wendell Lane in Sebastopol, Sonoma County. The majority of customers are full-time residents, being a mixture of retired or working individuals. The utility's system is supplied with water pumped from a well and comprised of two 10,000 gallon redwood storage tanks, a booster pump, and approximately 1,200 feet of distribution mains. Wendell reports that due to significant leaks, the redwood storage tanks can only be filled to 60% of their capacity.

NOTICE, PROTESTS, AND PUBLIC MEETING

AL 29 was served on August 10, 2010 in accordance with the provisions of General Order 96-B. A notice regarding the proposed rate increase was mailed to each customer on June 4, 2010.

An informal public meeting was held on September 28, 2010, at the Hessel Church, near Wendell Lane in Sebastopol. The Division of Water and Audits (Division) Staff explained the process of the rate increase request before the Commission to the thirteen people in attendance, while Mr. Charles Judson, receiver and owner of Weeks, discussed the increase request.

Two protests were received on August 30, 2010, one of them signed by three customers, and both expressing that the requested increase was too high in light of another large increase, which took place two years ago, and the current state of the economy. One of the protests also noted that the current rates were fair. The utility responded to both these protests explaining the need to cover necessary expenses.

A third letter received on August 26, 2010 brought to the attention of Staff the condition of disrepair that Wendell's well site was in, and along with providing images of the site itself as proof, the letter requested that the utility consider a clean-up of the area. Staff confirmed that Wendell has since performed the necessary weed abatement to clean up the well site, as requested by the concerned neighbor.

DISCUSSION

The Division made an independent analysis of Wendell's operations. Appendix A shows Wendell's and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2010. Wendell is in agreement with the Division's recommended revenue requirement and the rates shown in Appendix B.

Division staff reviewed Wendell's operating revenues and expenses including purchased power, contract work, other volume related expenses, water testing, other plant maintenance, office supplies and expenses, professional services, regulatory commission expenses, general expenses, and taxes other than income. The Division verified the operating expenses by reviewing annual reports, accounting records and supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonably necessary. With regards to operating expenses, the differences mainly lay in that Wendell underestimated its operating expenses by adopting the recorded numbers for 2009 for its TY request, while the Division used recorded values for both 2008 and 2009 (two-year average) which provide a better representation of the utilities' operations since the receivership became effective. Also, Wendell requested and recorded many expenses under incorrect categories, thus Division awarded those expenses under the proper accounts. The major differences are discussed below:

Employee Labor and Office Salaries.

Wendell does not have any employees. All operation and maintenance of the system is contracted to Weeks, who also provides the managerial and clerical contract services necessary to run the utility. Wendell erroneously requested those costs as Employee Labor and Office Salaries, respectively, while the Division allocated them under the appropriate Contract Work category below:

Contract Work

In addition to the contract services erroneously categorized above and which the Division estimated based on the more appropriate two-year average, the recommended allowance also includes amounts that the Division deems reasonable for additional system labor/repairs necessary for adequate operation of the system under a receivership condition.

Present Revenue

Wendell's estimate corresponds to the recorded revenue for 2009, which accounted for only 11 of the 12 billing period sales and disregards the presently effective interim increase of 2.7%.

Ratebase and Net Revenue

Despite noting in AL 29 that due to its receivership status no return on investment was requested, Wendell's workpapers indicate that its requested revenue increase was actually based on a return on investment of 13.50%. However Res. W-4695 – its last GRC – shows that Wendell's plant is fully depreciated and the utility indicated that no plant additions have been made since. Consequently on November 2, 2010 Wendell filed amended Annual Reports for 2008 and 2009 reflecting the fully depreciated plant. This reduces Wendell's requested revenue requirement by about 31%. No net revenue is recommended.

Rate Design

Wendell did not request specific rates. Wendell's current rate structure consists of one schedule: No 1, General Metered Service. The current rate design policy for Class D water companies specifies that 100% of fixed charges are to be recovered through service charges for metered customers. If this policy was strictly followed, Wendell's customers would see an increase of about 60% in their service charge because present rates are based on recovery of about 50% of fixed costs in the service charge. In order not to burden customers with excessive increases in their service charge, the Division's recommended rates shown in Appendix B recover 75% of fixed costs in the readiness to serve charge. This is a 19.7% increase in the service charge and a 9.3% decrease in the quantity rate. In the future Wendell should continue to pursue rates that approach recovery of fixed costs more in line with Commission's policy.

At the adopted rates shown in Appendix B, the monthly bill for a typical residential customer using 9 Ccf (one Ccf equals 100 cubic feet) of water with a 5/8 x 3/4 – inch meter will increase from the currently authorized interim rate of \$ 60.16 to \$65.06 or 8.1% increase as shown in Appendix C.

At the recommended rates the increase in revenue will be \$1,467 or 8.1% for TY 2010.

The adopted quantities and tax calculations are shown in Appendix D.

Facilities Fees

Wendell requested authority to establish Facilities Fees of \$5,000 per service connection. Res. W-4110, issued on September 3, 1998, allowed Class D water utilities to file to charge facilities fees to fund replacement of plant. As Wendell did not provide any substantiation for its request the Division recommends that the generic tariff established by Res. W-4110 be adopted instead. This tariff contains fees ranging from \$2,000 for 5/8 x 3/4 -inch metered water customers to \$16,000 for customers requiring a 2 inch meter (see Appendix D). Facilities Fees must be placed in an interest bearing account and balances in shown in Wendell's annual report to the Commission. Fund balances should be listed as debits to Account 132, Special Deposits, and as credits to Account 253, Other Credits. Interest should also be debited to Account 132, and credited to Account 421, Non-utility Income. All plant replaced using funds from these deposits, a debit would be made to the appropriate plant account and a credit made to Account 271, Contributions-in-Aid-of-Construction.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. The California Department of Public Health has not recently issued any violations or citations nor has expressed concern over Wendell's water system.

Wendell needs to file a Tier 1 AL within 30 days from the effective date of this resolution revising its Title Page and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

The draft resolution was served on the utility and all those who submitted letters to the Division questioning the rate increase for public comment on January 25, 2011.

Comments were received from _____.

FINDINGS

1. Wendell is a Class D water utility that as of October 1, 2007 has been operated by Weeks & Drilling Pump Co. (Weeks), a court-appointed receiver.
2. Wendell provides metered service to 25 residential customers residing on Wendell Lane in Sebastopol, Sonoma County.
3. Current rates became effective on July 13, 2010, by approval of an interim rate increase corresponding to the Consumer Price Index for 2009 of 2.7%, subject to refund, up or down, as determined by the final rates approved herein.
4. Wendell's interim rates were approved prior to submittal of the current GRC AL.
5. For Test Year 2010, it is appropriate to grant Wendell Water Company an increase in gross revenues of \$1,647 or 8.1%.
6. Wendell is in agreement with the Division's recommended increase.
7. The Division's recommended earnings (Appendix A) are reasonable and should be adopted.
8. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
9. The quantities (Appendix D) used to develop Division's recommendations are reasonable and should be adopted.

10. The generic Facilities Fee Schedule contained in Appendix B is reasonable and should be adopted.
11. Facilities Fees must be placed in an interest bearing account and balances in shown in Wendell's annual report to the Commission.
12. Fund balances should be listed as debits to Account 132, Special Deposits, and as credits to Account 253, Other Credits. Interest should also be debited to Account 132, and credited to Account 421, Non-utility Income.
13. For all plant replaced using funds from these deposits, a debit must be made to the appropriate plant account and a credit made to Account 271, Contributions-in-Aid-of-Construction.
14. Wendell should file a Tier 2 AL within 30 days from the effective date of this resolution to collect a surcharge for the undercollected revenues resulting from interim-rate approval from the date AL 29 was filed - August 11, 2010 -and the effective date of the new rates approved herein.
15. Wendell needs to file a Tier 1 AL within 30 days from the effective date of this resolution revising its Title Page and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.

THEREFORE IT IS ORDERED THAT:

1. Wendell Water Company is granted authority under Public Utilities Code Section 454 to file a supplement to Advice Letter 29 to make effective the revised Schedule No. 1 – General Metered Service, and Schedule No. F – Facilities Fee, contained in Appendix B, and concurrently cancels its presently effective rate schedules. The effective date of the revised rate schedules shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audit's recommendations are adopted.
3. Wendell shall file a Tier 2 Advice Letter within 30 days from the effective date of this resolution to collect a surcharge for the undercollected revenues resulting from interim-rate approval from the date Advice Letter 29 was filed - August 11, 2010 - and the effective date of the new rates.

4. Wendell needs to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising its Title Page and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.
5. 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 February 24, 2011; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

APPENDIX A
Wendell Water Company
Summary of Earnings – Test Year 2010

<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended Rates</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
<u>Operating Revenue</u>					
Metered Water Revenue	\$16,274	\$25,453	\$18,047	\$19,514	\$19,514
Total Operating Revenue	\$16,274	\$25,453	\$18,047	\$19,514	\$19,514
<u>Operating Expenses</u>					
Purchased Water	\$0	\$0	\$0	\$0	\$0
Purchased Power	\$1,000	\$1,000	\$1,004	\$1,004	\$1,004
Other Volume Related Expenses	\$428	\$428	\$435	\$435	\$435
Employee Labor	\$5,500	\$5,500	\$0	\$0	\$0
Materials	\$400	\$400	\$0	\$0	\$0
Contract Work	\$1,200	\$1,200	\$12,651	\$12,651	\$12,651
Water Testing	\$1,400	\$1,400	\$2,320	\$2,320	\$2,320
Transportation Expenses		\$0	\$0	\$0	\$0
Other Plant Maintenance		\$0	\$0	\$0	\$0
Office Salaries	\$2,440	\$2,440	\$0	\$0	\$0
Management Salaries	\$0	\$0	\$0	\$0	\$0
Employee Benefits	\$0	\$0	\$0	\$0	\$0
Uncollectibles Expense	\$0	\$0	\$0	\$0	\$0
Office Services & Rentals	\$2,750	\$2,750	\$0	\$0	\$0
Office Supplies & Expenses	\$200	\$200	\$478	\$478	\$478
Professional Services	\$0	\$0	\$1,051	\$1,051	\$1,051
Insurance	\$0	\$0	\$0	\$0	\$0
Regulatory Commission Expense	\$250	\$250	\$250	\$250	\$250
General Expenses	\$125	\$125	\$123	\$123	\$123
Subtotal	\$15,693	\$15,693	\$18,312	\$18,312	\$18,312
Depreciation	\$6,332	\$6,332	\$0	\$0	\$0
Taxes other than Income	\$660	\$660	\$402	\$402	\$402
Income Taxes	\$0	\$1,096	\$800	\$800	\$800
Total Deductions	\$22,685	\$23,781	\$19,514	\$19,514	\$19,514
Net Revenue/Operating Margin	(\$6,411)	\$1,672	(\$1,467)	\$0	\$0
<u>Rate Base</u>					
Average Plant	\$31,912	\$31,912	\$0	\$0	\$0
Ave. Accumulated Depreciation	\$20,736	\$20,736	\$0	\$0	\$0
Net Plant	\$11,176	\$11,176	\$0	\$0	\$0
<u>Less</u> Advances		\$0	\$0	\$0	\$0
Contributions		\$0	\$0	\$0	\$0
<u>Plus</u> Working Cash	\$1,212	\$1,212	\$0	\$0	\$0
Materials & Supplies			\$0	\$0	\$0
Rate Base:	\$12,388	\$12,388	N/A	N/A	N/A

APPENDIX B
(Page 1 of 2)
Wendell Water Company
Test Year 2010

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Wendell Lane in Sebastopol, Sonoma County.

RATES

Per Meter
Per Month

Quantity Rates

All Water, per 100 cubic feet.....\$ 2.47 (R)

Service Charge

For 5/8 x 3/4-inch meter.....\$ 43.19 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered services, and to which is to be added to 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.
2. All bills are subject to a surcharge of \$6.44, for 24 monthly intervals, from the effective date of the AL 27 to recover increased power costs, pump repairs and costs associated with Department of Public Health.

APPENDIX B
(Page 2 of 2)
Wendell Water Company
Test Year 2010

Schedule No. F

FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises due to change in use.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

Initial Fee for each Service Connection:

For	5/8 x 3/4-inch meter	\$ 2,000
For	3/4-inch meter	3,000
For	1-inch meter	5,000
For	1-1/2-inch meter	10,000
For	2-inch meter	16,000

SPECIAL CONDITIONS

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 Utilities Commission Reimbursement Fee surcharge in Schedule UF.
3. These fees shall be used only for the repair and replacement or the installation of new infrastructure.
4. These fees shall be deposited in a separate trustee account and used only upon permission of the Water Division or its successor.

APPENDIX C
Wendell Water Company

COMPARISON OF RATES FOR TEST YEAR 2010

Metered Service

Per Service Connection Per Month

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meters	\$ 36.07	\$43.19	19.7%

Quantity Rates:

All water per Ccf . . .	\$ 2.72	\$ 2.47	-9.3%
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A Monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

<u>Usage Ccf</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	36.07	43.19	7.12	19.7%
3	44.23	50.59	6.36	14.4%
5	49.67	55.53	5.86	11.8%
9 (avg.)	60.16	65.05	4.89	8.1%
10	63.27	67.87	4.60	7.3%
13	71.43	75.27	3.84	5.4%

APPENDIX D
Wendell Water Company

ADOPTED QUANTITIES

Test Year 2010

1. Purchased Power:

Pacific Gas and Electric
Rate Schedule E-1XB Residential Service
Effective June, 2010

Total Usage kWh/Ccf Produced	2.2376
Composite Expense \$/kWh	\$ 0.1689
Total kWh	5,944

2. Property Taxes: \$ 402

3. Service Connections:

<u>Meter Size</u>	<u>Connections</u>
5/4 x 3/4 – inch	25

4. Water Sales in Ccf 2,657

5. Adopted Tax Calculation Test Year 2010:

Operating Revenues	\$19,514
Expenses	\$18,312
Taxes other than income	\$ 402
Taxable Income for State Tax	\$ 800
California corporate franchise tax rate-minimum	\$ 800
Taxable income for federal tax	\$ 0
Federal income tax	\$ 0
Total Income Tax	\$ 800

(END OF APPENDIX D)

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Resolution W-4869 on all parties in the filings or their attorneys as shown on the attached list.

Dated January 25, 2010, 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-4869

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