

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



September 20, 2011

Draft Resolution W-4887
Agenda ID #10695

TO: All Interested Persons

Enclosed is draft Resolution W-4887 of the Division of Water and Audits Resolution authorizing Mecchi Water Company a general rate increase producing additional revenues of \$14,434 or 90.00% for Test Year 2011, \$2,952 or 9.69% and \$2,953 or 8.83% for escalation years 2012 and 2013, respectively. Draft Resolution W-4887 will be on the Commission's October 20, 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-4887. 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

Division of Water and Audits, Third Floor
Attention: Rami S. Kahlon
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 October 10, 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-4887
Certificate of Service
Service List

DWA/RSK/BMD/PTL/CCG/jlj

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory BranchRESOLUTION NO. W-4887
October 20, 2011**R E S O L U T I O N**

**(RES.W-4887), MECCHI WATER COMPANY (MECCHI).
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC),
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$14,434
OR 90.00% FOR TEST YEAR (TY) 2011, \$2,952 OR 9.69% AND
\$2,953 OR 8.83% FOR ESCALATION YEARS 2012 AND 2013,
RESPECTIVELY.**

SUMMARY

By Advice Letter (AL) 18, filed on March 14, 2011, as supplemented with AL 18-A on April 25, 2011, Mecchi seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. For TY 2011, this Resolution grants an increase in gross annual revenues of \$14,434 or 90.00% over current rates, and additional revenue of \$2,952 or 9.69% and \$2,953 or 8.83%, for escalation years 2012 and 2013, respectively. The rate schedules to implement the 2011 increase and the escalation increases for years 2012 and 2013 are set forth in Appendix B. This increase, inclusive of escalation years, is estimated to provide a return on margin of 24.89%.

BACKGROUND

Mecchi, a Class D water utility, has requested authority under Rule 7.6.2 of General Order (G. O.) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$30,915 or 198.4%¹ over the current rates for TY 2011. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Mecchi's request was based on a return on margin of 24.87%. To mitigate the impact of the large increase Mecchi proposed that the full increase go in effect one year after the implementation of the interim rates described

¹ Due to a calculation error Mecchi submitted revised workpapers on June 20, 2011 revising its original revenue increase request of 232% down to a stated increase of 207%. However, the requested revenue increase amount of \$30,915, as indicated in the revised workpapers, actually yields an increase of 198.4% over Mecchi's own calculated present revenue.

below. Mecchi not only attributes the magnitude of its increase request to the absence of any increases in over 17 years, but also to the steep increase in groundwater pumping fees due to the Santa Clara Valley Water District. Mecchi considers its customers are high water users and proposed a tiered rate structure intended to curb water consumption and thus reduce pumping costs which are passed through to customers in rates.

The present rates became effective on April 25, 2011, by approval of AL 19, which authorized an interim rate increase of \$5,400 or 35%, subject to refund or increase to the rates established in this GRC. The last GRC for Mecchi was granted on March 16, 1994, pursuant to Res. W-3837, which granted an increase in revenues of \$9,319 or 202%. Mecchi serves approximately 27 flat-rate customers² in its service area located approximately $\frac{3}{4}$ mile north of San Martin in Santa Clara County. All but two of the connections are single-family residences, nine of them serving properties that contain a second dwelling unit billed at an additional flat rate. The customer base can be characterized as low-income and has not significantly increased since 1994, when the last GRC was approved. Mecchi's system is supplied from one well, known as Well 2, and uses six 80-gallon pressure tanks.

Per Res. W-3837, Mr. Jess Ledesma took over the system when his sister, Ms. Ruth Mary Ordanz, passed away in 1992. Messieurs Gary and Jack Ledesma, the current owners, inherited Mecchi in 1999, following the death of their father Mr. Jess Ledesma. Current ownership is reflected in Mecchi's tariffs by approval of AL 20 filed with the Commission on August 8, 2011 pursuant to Public Utilities Code (PU Code) 853 (c).

Since its last GRC, Mecchi has consistently failed to comply with Department of Public Health's water quality monitoring requirements, resulting in numerous DPH citations. Mecchi's failure to comply with DPH directives led the Environmental Protection Agency (EPA) to issue an Administrative Order³ (Order) on March 30, 2009. In late 2009 Mecchi contracted the operation and maintenance of the system out to Bracewell Engineering, a full service firm staffed with certified operators. The contractor has since been working with DPH to meet compliance.

² According to billing records as of February 1, 2011.

³ In Case No. PWS-AO-2009-6009. Order requires Mecchi to file either a standard monitoring plan or a system specific study to address the Stage 2 Disinfectants and Disinfection Byproducts Rule.

NOTICE AND PROTEST

AL 18 was served on March 22, 2011, in accordance with G. O. 96-B, including adjacent utilities and persons on the general service list. On June 3, 2011, a notice of the proposed rate increase was hand-delivered at each customer's service address. Division staff granted an extension of the protest period during which five customer letters questioning the rate increase were timely received and responded to by the utility. The Division of Water and Audits (Division) has reviewed and considered all letters received.

An informal public meeting was held on Thursday, June 23, 2011, at 6:00 PM at a local restaurant in Morgan Hill. Approximately ten customers attended the meeting. Division staff (Staff) explained the Commission's rate-setting procedures, while Mecchi's representative cited justification for the proposed rate increase. Staff and Mecchi's representative answered questions until approximately 8:30 PM.

Much of the customer feedback, in both the letters received and at the public meeting, appeared to be inspired by the magnitude of the requested increase with many customers concerned about affordability of the proposed rates when coupled with other recent increases. Shortly before filing this GRC, Mecchi requested and received authority, by approval of AL 17 on January 4, 2011, to implement a monthly surcharge of \$18.97 for a period of 36 months to recover offsetable expenses authorized by the Commission. Additional customer concerns include water pressure and quality, as well as communication between the company and the customers. A review of Mecchi's 2010 DPH Consumer Confidence Report shows that its water meets the required quality standards set by the DPH, while the GRC field investigation showed that water pressure is within the guidelines set in G. O. 103-A. At the public meeting, Staff learned that Mecchi has not provided emergency telephone access for customers as required by G. O. 103-A. At the Division's direction Mecchi revised its customer's monthly bill to include emergency contact information that provides customers with telephone access, including after-hours access, to the contractor operating and maintaining the system.

In setting rates in this resolution, we have balanced the financial requirements of Mecchi with the rate concerns of its customers.

DISCUSSION

The surcharge authorized by AL 17 and implemented shortly before this GRC request represents an increase of 46.84% on the average customer bill. Interim rates, approved effective April 25, 2011, closely followed with a 35% rate increase. The magnitude of

Mecchi's current request to increase revenues by 198.4% stems largely from the absence of any increases for over 17 years.

The magnitude and timing of Mecchi's GRC request, interim rate increase, and its recently approved surcharge justify a more gradual revenue increase than that proposed by Mecchi. To mitigate the impact that this large increase may have on its customers, most of which are financially disadvantaged, Mecchi agreed to phase-in its revenues over a period of three years, from 2011 through 2013, instead of one year, as it originally proposed. To lessen customer rate shock and fulfill the intent of a gradual increase Mecchi should be barred from recovery of uncollected revenue for the period between April 25, 2011 - effective date of interim rates - and the effective date of the rate increase. Mecchi should also be barred from deferred revenue collection for all 2011, 2012, and 2013. Mecchi should not request recovery of the Consumer Price Index for years 2011 and 2012.

The Division made an independent analysis of Mecchi's operations. Appendix A shows Mecchi's and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2011, to be phased in during years 2011, 2012, and 2013. Appendix B includes the Division's tariff rates for TY 2011, and escalation years 2012 and 2013. The Division informed Mecchi of how the methodologies it used differed from those used in Mecchi's request. Mecchi is now in agreement with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increases and resulting rates shown in Appendix B.

Staff reviewed operating expenses including purchased power, other volume related, contract work, other plant maintenance, management salaries, professional services, office services and rentals, regulatory commission expense, and depreciation. Staff verified operating expenses and the rate base by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The Division's estimate of Mecchi's purchased power costs used Pacific Gas & Electric's rates effective March 1, 2011 applied to 12 months of electric usage ending on March 2011. The quantities used to calculate purchased power and the groundwater pumping fee component of other volume related expenses⁴ is the three-year average (2008-2010)

⁴ Includes chemical costs for water treatment and fees due to the Santa Clara Valley Water District for groundwater pumping at \$275 per acre-foot for pumping January through June of the TY, increasing to \$285 per acre-foot July through December of the TY.

of water production data, found in Appendix D. The Division's estimate for contract work is based on actual costs incurred in 2010, including a fixed fee for monthly system operation and costs for as-needed plant maintenance services, both performed by a contractor. Unlike Mecchi's request, water testing costs were estimated and broken out separately to general contract costs. The Division's estimate of regulatory commission expenses is inclusive of DPH's system fee.

Mecchi requested a rate of margin of 24.89%⁵. Two methods are available for the Division to utilize in the rate-making process for class D water utilities: (1) Rate of Return, and (2) Rate of Margin. Per Decision (D.) 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues for a utility Mecchi's size. The Division's Utility Audit, Finance & Compliance Branch has recommended a rate of margin of 24.89% for TY 2011 for Class D water utilities. The Division determined that the rate of margin method produces the higher revenues of \$36,377 compared with the rate of return revenues of \$29,828 at a rate of 12.5%, and therefore recommends adopting a rate of margin of 24.89%.

Mecchi's filed tariffs currently contain two schedules: 1, General Metered Service; and 2, Residential Flat Rate Service. Although Mecchi does not currently have any metered services, it has in the past requested to retain that Schedule in the event it does install meters in the future. Part of Mecchi's current request includes metering the system and implementing an increasing tiered rate structure that will encourage water conservation. Mecchi has not, to date, obtained cost estimates to meter the system. Conservation rates are intended to send customers a price signal on water usage and also designed based on the service area's specific water usage patterns. It would be premature to implement tiered rates without actual customer water usage data, which in turn can only be obtained from metered service connections. Mecchi should be allowed to retain a general metered service rate schedule which recovers 100% of the fixed costs through the service charge and a single block quantity rate, as stated in D.92-03-093. In the event that Mecchi installs meters it should apply the single block quantity rate structure and track customer water use data, for at least one year thereafter, prior to seeking authorization to implement an increasing tier rate structure. Until then, Mecchi's request to establish tiered rates should be denied. As Mecchi serves two commercial customers, it should delete "residential" from Schedule No. 2's title.

⁵ This is Mecchi's stated rate of margin; however, its revenue increase request actually yielded 24.86%.

At the Division's recommended rates the increase in revenue will be \$20,339 or 90.00% for TY 2011, \$2,952 or 9.69% and \$2,953 or 8.83%, for escalation years 2012 and 2013, respectively. At the recommended rates for 2008, shown in Appendix B, monthly flat rates will increase from \$40.50 to \$76.95, a difference of \$36.45 or 90.00% in TY 2011; from \$76.95 to \$84.40, a difference of \$7.45 or 9.69% in escalation year 2012; and from \$84.40 to \$91.86, a difference of \$7.46 or 8.84%. A comparison of customer bills at present, recommended, and escalation rates are shown in Appendix C. The projections, adopted quantities, and tax calculations are shown in Appendix D. Mecchi should be required to file Tier 2 advice letters on or before November 20 of 2011 and 2012 for the escalation rates of 2012 and 2013, and the escalation rates will be made effective on January 1, 2012 and 2013, respectively.

COMPLIANCE

The utility has not consistently filed annual reports as required. However, it did file 2008, 2009, and 2010 Annual Reports in 2011. Mecchi must file Annual Reports and do so in a timely manner while reporting all required data.

With the operation and maintenance contractor on board, Mecchi has been working with DPH to bring the system into compliance. Mecchi's water quality monitoring has essentially been brought up to date and most other required system improvements completed, including disconnection of Well 1 from the system. Mecchi continues to work towards compliance of the outstanding items. As required by the EPA Order, Mecchi has submitted a Standard Monitoring Plan to EPA and DPH for review and approval. DPH is coordinating with the EPA regarding the system's eventual return to compliance with respect to the EPA Order.

Mecchi needs to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet the current commission standards: Title Page, Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 10, Disputed Bills; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

COMMENTS

PU Code 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.

Accordingly, the draft resolution was mailed to the utility, all protestants (whether or not they filed timely protests), and those requesting service at the public meeting, and made available for public comment on September 20, 2011. Comments were received from _____.

FINDINGS

1. Mecchi has requested authority to increase its water rates by \$30,915 or 198.4% for TY 2011.
2. AL 18 was served on March 22, 2011, in accordance with GO 96-B, including adjacent utilities and persons on the general service list. On June 3, 2011, a notice of the proposed rate increase was hand delivered at each customer's service address.
3. Mecchi agreed to phase-in its revenues over a period of three years, from 2011 through 2013.
4. Mecchi should be barred from recovery of uncollected revenue for the period between April 25, 2011 - the effective date of interim rates - and the effective date of the rate increase.
5. Mecchi should be barred from deferred revenue collection for all 2011, 2012, and 2013.
6. Mecchi should not request recovery of the Consumer Price Index for years 2011 and 2012.
7. Mecchi does not currently have any metered services, but should be allowed to retain a general metered service rate schedule.
8. In reviewing Mecchi's request, the Division made an independent analysis of Mecchi's operations.
9. Staff verified operating expenses and the rate base by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.
10. The Division used 12 months of actual power usage to estimate purchased power costs.
11. The quantities used to calculate purchased power and the groundwater pumping fee component of other volume related expenses is the three year average (2008-2010) of water production data.
12. The Division's estimate for contract work is based on actual costs incurred in 2010, including a fixed fee for monthly system operation and costs for as-needed plant maintenance services, both performed by a contractor.

13. The Division's estimate of regulatory commission expenses is inclusive of DPH's system fee.
14. The Division informed Mecchi of how the methodologies it used differed from those used in Mecchi's request. Mecchi is now in agreement with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B.
15. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
16. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
17. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
18. For TY 2011, it is appropriate to grant Mecchi an increase in gross annual revenues of \$20,339 or 90.00%, \$2,952 or 9.69% and \$2,953 or 8.83%, for escalation years 2012 and 2013, respectively, which is estimated to provide a return on margin of 24.89%.
19. At the recommended rates for 2011, shown in Appendix B, monthly flat rates will increase from \$40.50 to \$76.95, a difference of \$36.45 or 90.00% in TY 2011; from \$76.95 to \$84.40, a difference of \$7.45 or 9.69% in escalation year 2012; and from \$84.40 to \$91.86, a difference of \$7.46 or 8.84% in escalation year 2013.
20. Mecchi should be required to file Tier 2 advice letters on or before November 20 of 2011 and 2012 for the escalation rates of 2012 and 2013, and the escalation rates will be made effective on January 1, 2012 and 2013, respectively.
21. In the event that Mecchi installs meters it should apply the single block quantity rate structure and track customer water use data , for at least one year thereafter, prior to seeking authorization to implement an increasing tier rate structure.
22. Mecchi's request to establish tiered rates should be denied.
23. The interim increase, subject to refund or increase to the rates set herein, was requested by AL 19 and became effective on April 25, 2011, with a rate increase of \$5,400 or 35%.
24. Mecchi should be ordered to file Annual Reports and do so in a timely manner while reporting all required data.
25. Mecchi should be ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet the current commission standards: Title Page, Rules 3, Application for

Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 10, Disputed Bills; 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 Mecchi Water Company, to file a supplemental advice letter with Appendix A, Summary of Earnings, and the revised rate schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service; and Schedule No. 2, Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Mecchi Water Company is authorized to increase annual revenues by \$20,339 or 90.00% for Test Year 2011, and additional annual revenue of \$2,952 or 9.69% and \$2,953 or 8.83%, for escalation years 2012 and 2013.
3. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
4. Mecchi Water Company shall file tier 2 advice letters on or before November 20 of 2011 and 2012 for the escalation rates of 2012 and 2013, and the escalation rates will be made effective on January 1, 2012 and 2013, respectively.
5. Mecchi shall be barred from recovery of uncollected revenue for the period between April 25, 2011 - the effective date of interim rates - and the effective date of this rate increase.
6. Mecchi Water Company shall be barred from deferred revenue collection for all 2011, 2012, and 2013.
7. Mecchi Water Company shall not request recovery of the Consumer Price Index for years 2011 and 2012.
8. Mecchi Water Company is ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet the current commission standards: Title Page, Rules 3, Application for Service; 5, Special Information required on Forms; 7, Deposits; 8, Notices; 10, Disputed Bills; and Forms 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 October 20, 2011; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

APPENDIX A

Mecchi Water Company
Summary of Earnings - Test Year 2011

| <u>Item</u> | <u>Utility Estimated</u> | | <u>Branch Estimated</u> | | <u>Recommended Rates 2011</u> |
|-------------------------------------|--------------------------|------------------------|-------------------------|------------------------|-------------------------------|
| | <u>Present Rates</u> | <u>Requested Rates</u> | <u>Present Rates</u> | <u>Requested Rates</u> | |
| Operating Revenue | | | | | |
| Unmetered Water Revenue | \$15,250 | \$46,165 | \$ 16,038.00 | \$36,377 | \$30,472 |
| Other Water Revenue | \$330 | \$330 | | | |
| Total Operating Revenue | \$15,580 | \$46,495 | \$16,038 | \$36,377 | \$30,472 |
| Operating Expenses | | | | | |
| Purchased Water | \$0 | \$0 | \$0 | \$0 | \$0 |
| Purchased Power | \$3,284 | \$3,284 | \$2,993 | \$2,993 | \$2,993 |
| Other Volume Related Expenses | \$10,511 | \$10,511 | \$9,268 | \$9,268 | \$9,268 |
| Employee Labor | \$0 | \$0 | \$0 | \$0 | \$0 |
| Materials | \$0 | \$0 | \$0 | \$0 | \$0 |
| Contract Work | \$11,275 | \$11,275 | \$10,227 | \$10,227 | \$10,227 |
| Water Testing | | \$0 | \$734 | \$734 | \$734 |
| Transportation Expenses | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Plant Maintenance | \$68 | \$68 | \$68 | \$68 | \$68 |
| Office Salaries | \$0 | \$0 | \$0 | \$0 | \$0 |
| Management Salaries | \$2,000 | \$2,000 | \$1,000 | \$1,000 | \$1,000 |
| Employee Benefits | \$0 | \$0 | \$0 | \$0 | \$0 |
| Uncollectibles Expense | \$0 | \$0 | \$0 | \$0 | \$0 |
| Office Services & Rentals | \$284 | \$284 | \$0 | \$0 | \$0 |
| Office Supplies & Expenses | \$0 | \$0 | \$0 | \$0 | \$0 |
| Professional Services | \$5,344 | \$5,344 | \$1,500 | \$1,500 | \$1,500 |
| Insurance | \$0 | \$0 | \$0 | \$0 | \$0 |
| Regulatory Commission Expense | \$673 | \$673 | \$600 | \$600 | \$600 |
| General Expenses | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subtotal | \$33,439 | \$33,439 | \$26,389 | \$26,389 | \$26,389 |
| Depreciation | \$1,560 | \$1,560 | \$1,128 | \$1,128 | \$1,128 |
| Taxes other than Income | \$0 | \$0 | \$0 | \$0 | \$0 |
| Income Taxes | \$1,045 | \$2,794 | \$800 | \$2,009 | \$1,123 |
| Interest | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Deductions | \$36,044 | \$37,793 | \$28,318 | \$29,527 | \$28,641 |
| Net Revenue/Operating Margin | (\$20,464) | \$8,702 | (\$12,280) | \$6,850 | \$1,831 |
| Rate Base | | | | | |
| Average Plant | \$61,815 | \$61,815 | \$45,127 | \$45,127 | \$45,127 |
| Ave. Accumulated Depreciation | \$34,225 | \$34,225 | \$34,855 | \$34,855 | \$34,855 |
| Net Plant | \$27,590 | \$27,590 | \$10,272 | \$10,272 | \$10,272 |
| Less Advances | | \$0 | \$0 | \$0 | \$0 |
| Contributions | | \$0 | \$0 | \$0 | \$0 |
| Plus Working Cash | \$0 | \$0 | \$0 | \$0 | \$0 |
| Materials & Supplies | | | \$0 | \$0 | \$0 |
| Rate Base: | \$27,590 | \$27,590 | \$10,272 | \$10,272 | \$10,272 |
| Rate of Margin | | | | | 6.65% |

APPENDIX A

Mecchi Water Company
Summary of Earnings - Escalation Year 2012

| Item | Utility Estimated | | Branch Estimated | | Recommended Rates 2011 | Recommended Rates 2012 |
|-------------------------------------|-------------------|-----------------|-------------------|-----------------|------------------------|------------------------|
| | Present Rates | Requested Rates | Present Rates | Requested Rates | | |
| Operating Revenue | | | | | | |
| Unmetered Water Revenue | \$15,250 | \$46,165 | \$ 16,038.00 | \$36,377 | \$30,472 | \$33,424 |
| Other Water Revenue | \$330 | \$330 | | | | |
| Total Operating Revenue | \$15,580 | \$46,495 | \$16,038 | \$36,377 | \$30,472 | \$33,424 |
| Operating Expenses | | | | | | |
| Purchased Water | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Purchased Power | \$3,284 | \$3,284 | \$2,993 | \$2,993 | \$2,993 | \$2,993 |
| Other Volume Related Expenses | \$10,511 | \$10,511 | \$9,268 | \$9,268 | \$9,268 | \$9,268 |
| Employee Labor | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Materials | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Contract Work | \$11,275 | \$11,275 | \$10,227 | \$10,227 | \$10,227 | \$10,227 |
| Water Testing | | \$0 | \$734 | \$734 | \$734 | \$734 |
| Transportation Expenses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Plant Maintenance | \$68 | \$68 | \$68 | \$68 | \$68 | \$68 |
| Office Salaries | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Management Salaries | \$2,000 | \$2,000 | \$1,000 | \$1,000 | \$1,000 | \$1,000 |
| Employee Benefits | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Uncollectibles Expense | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Office Services & Rentals | \$284 | \$284 | \$0 | \$0 | \$0 | \$0 |
| Office Supplies & Expenses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Professional Services | \$5,344 | \$5,344 | \$1,500 | \$1,500 | \$1,500 | \$1,500 |
| Insurance | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Regulatory Commission Expense | \$673 | \$673 | \$600 | \$600 | \$600 | \$600 |
| General Expenses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subtotal | \$33,439 | \$33,439 | \$26,389 | \$26,389 | \$26,389 | \$26,389 |
| Depreciation | \$1,560 | \$1,560 | \$1,128 | \$1,128 | \$1,128 | \$1,128 |
| Taxes other than Income | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Income Taxes | \$1,045 | \$2,794 | \$800 | \$2,009 | \$1,123 | \$1,566 |
| Interest | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Deductions | \$36,044 | \$37,793 | \$28,318 | \$29,527 | \$28,641 | \$29,084 |
| Net Revenue/Operating Margin | (\$20,464) | \$8,702 | (\$12,280) | \$6,850 | \$1,831 | \$4,340 |
| Rate Base | | | | | | |
| Average Plant | \$61,815 | \$61,815 | \$45,127 | \$45,127 | \$45,127 | \$45,127 |
| Ave. Accumulated Depreciation | \$34,225 | \$34,225 | \$34,855 | \$34,855 | \$34,855 | \$34,855 |
| Net Plant | \$27,590 | \$27,590 | \$10,272 | \$10,272 | \$10,272 | \$10,272 |
| Less Advances | | \$0 | \$0 | \$0 | \$0 | \$0 |
| Contributions | | \$0 | \$0 | \$0 | \$0 | \$0 |
| Plus Working Cash | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Materials & Supplies | | \$0 | \$0 | \$0 | \$0 | \$0 |
| Rate Base: | \$27,590 | \$27,590 | \$10,272 | \$10,272 | \$10,272 | \$10,272 |
| Rate of Margin | | | | | 6.65% | 15.77% |

Mecchi Water Company
Summary of Earnings - Escalation Year 2013

| Item | Utility Estimated | | Branch Estimated | | Recommended Rates | | |
|-------------------------------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|-----------------|
| | Present Rates | Requested Rates | Present Rates | Requested Rates | 2011 | 2012 | 2013 |
| Operating Revenue | | | | | | | |
| Unmetered Water Revenue | \$15,250 | \$46,165 | \$ 16,038.00 | \$36,377 | \$30,472 | \$33,424 | \$36,377 |
| Other Water Revenue | \$330 | \$330 | | | | | |
| Total Operating Revenue | \$15,580 | \$46,495 | \$16,038 | \$36,377 | \$30,472 | \$33,424 | \$36,377 |
| Operating Expenses | | | | | | | |
| Purchased Water | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Purchased Power | \$3,284 | \$3,284 | \$2,993 | \$2,993 | \$2,993 | \$2,993 | \$2,993 |
| Other Volume Related Expenses | \$10,511 | \$10,511 | \$9,268 | \$9,268 | \$9,268 | \$9,268 | \$9,268 |
| Employee Labor | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Materials | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Contract Work | \$11,275 | \$11,275 | \$10,227 | \$10,227 | \$10,227 | \$10,227 | \$10,227 |
| Water Testing | | \$0 | \$734 | \$734 | \$734 | \$734 | \$734 |
| Transportation Expenses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Plant Maintenance | \$68 | \$68 | \$68 | \$68 | \$68 | \$68 | \$68 |
| Office Salaries | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Management Salaries | \$2,000 | \$2,000 | \$1,000 | \$1,000 | \$1,000 | \$1,000 | \$1,000 |
| Employee Benefits | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Uncollectibles Expense | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Office Services & Rentals | \$284 | \$284 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Office Supplies & Expenses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Professional Services | \$5,344 | \$5,344 | \$1,500 | \$1,500 | \$1,500 | \$1,500 | \$1,500 |
| Insurance | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Regulatory Commission Expense | \$673 | \$673 | \$600 | \$600 | \$600 | \$600 | \$600 |
| General Expenses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subtotal | \$33,439 | \$33,439 | \$26,389 | \$26,389 | \$26,389 | \$26,389 | \$26,389 |
| Depreciation | \$1,560 | \$1,560 | \$1,128 | \$1,128 | \$1,128 | \$1,128 | \$1,128 |
| Taxes other than Income | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Income Taxes | \$1,045 | \$2,794 | \$800 | \$2,009 | \$1,123 | \$1,566 | \$2,009 |
| Interest | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Deductions | \$36,044 | \$37,793 | \$28,318 | \$29,527 | \$28,641 | \$29,084 | \$29,527 |
| Net Revenue/Operating Margin | (\$20,464) | \$8,702 | (\$12,280) | \$6,850 | \$1,831 | \$4,340 | \$6,850 |
| Rate Base | | | | | | | |
| Average Plant | \$61,815 | \$61,815 | \$45,127 | \$45,127 | \$45,127 | \$45,127 | \$45,127 |
| Ave. Accumulated Depreciation | \$34,225 | \$34,225 | \$34,855 | \$34,855 | \$34,855 | \$34,855 | \$34,855 |
| Net Plant | \$27,590 | \$27,590 | \$10,272 | \$10,272 | \$10,272 | \$10,272 | \$10,272 |
| Less Advances | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Contributions | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Plus Working Cash | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Materials & Supplies | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Rate Base: | \$27,590 | \$27,590 | \$10,272 | \$10,272 | \$10,272 | \$10,272 | \$10,272 |
| Rate of Margin | | | | | 6.65% | 15.77% | 24.89% |

(END OF APPENDIX A)

APPENDIX B

Mecchi Water Company

SCHEDULE NO. 1

GENERAL METERED SERVICE
Test Year 2011

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Crowner Subdivision Tract No. 224, and vicinity, located $\frac{3}{4}$ mile of San Martin, Santa Clara County.

RATES

| | <u>Per Meter Per Month</u> | |
|--------------------------------------|--------------------------------|-----|
| Quantity Rates: | | |
| Per 100 Cubic Feet | \$ 1.05 | (I) |
| Service Charge: | | |
| For 5/8 x $\frac{3}{4}$ - inch meter | \$52.74 | (I) |

Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF
2. As authorized by the California Public Utilities Commission all bills are subject to a 36-month surcharge of \$18.97 offsetting Groundwater Management for 2007 through 2009, California Department of Public Health Fees for 2007 through 2009, Purchased Power for 2007 through 2009, and Document Preparation and Filing Fees.

APPENDIX B

Mecchi Water Company

SCHEDULE NO. 2

FLAT RATE SERVICE (C)
Test Year 2011

APPLICABILITY

Applicable to all water service furnished on a flat rate basis. (C)

TERRITORY

Crowner Subdivision Tract No. 224, and vicinity, located $\frac{3}{4}$ mile of San Martin, Santa Clara County.

RATES

| | <u>Per Month</u> | |
|--|------------------|-----|
| For each residence located on a single, lot but irrigation of lawns and gardens restricted to 300 sq ft: | \$76.95 | (I) |
| For each additional residence on same lot | \$51.30 | (I) |

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than one-inch in diameter.
2. For service covered by the above classifications, if the utility elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service, effective as of the first day of the following month.
3. As authorized by the California Public Utilities Commission all bills are subject to a 36-month surcharge of \$18.97 offsetting Groundwater Management for 2007 through 2009, California Department of Public Health Fees for 2007 through 2009, Purchased Power for 2007 through 2009, and Document Preparation and Filing Fees.

APPENDIX B

Mecchi Water Company

SCHEDULE NO. 1

GENERAL METERED SERVICE
Escalation Years 2012 and 2013

APPLICABILITY

Applicable to all metered water service furnished on a flat rate basis.

TERRITORY

Crowner Subdivision Tract No. 224, and vicinity, located $\frac{3}{4}$ mile of San Martin, Santa Clara County.

RATES

| | Escalation Year | |
|--------------------------------------|-------------------------|-------------------------|
| | 2012 | 2013 |
| | <u>Per Month</u> | <u>Per Month</u> |
| Quantity Rates: | | |
| Per 100 Cubic Feet: | \$1.05 | \$ 1.12 (I) |
| Service Charge: | | |
| For 5/8 x $\frac{3}{4}$ - inch meter | \$56.27 | \$68.23 (I) |

Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. As authorized in the California Public Utilities Commission all bills are subject to a 36-month surcharge of \$18.97 offsetting Groundwater Management for 2007 through 2009, California Department of Public Health Fees for 2007 through 2009, Purchased Power for 2007 through 2009, and Document Preparation and Filing Fees.

APPENDIX B

Mecchi Water Company

SCHEDULE NO. 2

FLAT RATE SERVICE
Escalation Years 2012 and 2013

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Crowner Subdivision Tract No. 224, and vicinity, located $\frac{3}{4}$ mile of San Martin, Santa Clara County.

RATES

| | Escalation Year | |
|---|--------------------------|--------------------------|
| | 2012 <u>Per Month</u> | 2013 <u>Per Month</u> |
| For each residence located on a single lot but irrigation of lawns and gardens restricted to 300 sq ft: | \$84.40 | \$91.86 (I) |
| For each additional residence on same lot : | \$56.27 | \$61.24 (I) |

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than one-inch in diameter.
2. For service covered by the above classifications, if the utility elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service, effective as of the first day of the following month.
3. As authorized by the California Public Utilities Commission all bills are subject to a 36-month surcharge of \$18.97 offsetting Groundwater Management for 2007 through 2009, California Department of Public Health Fees for 2007 through 2009, Purchased Power for 2007, through 2009, and Document Preparation and Filing Fees.

(END OF APPENDIX B)

APPENDIX C

Mecchi Water Company

COMPARISON OF RATES

TEST YEAR 2011

| <u>Service</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Amount Increase</u> | <u>Percent Increase</u> |
|-------------------|----------------------|-----------------------|------------------------|-------------------------|
| Monthly Flat Rate | \$40.50 | \$76.95 | \$36.45 | 90.0% |

COMPARISON OF RATES

ESCALATION YEAR 2012

| <u>Service</u> | <u>2011 Rates</u> | <u>Proposed Rates</u> | <u>Amount Increase</u> | <u>Percent Increase</u> |
|-------------------|-------------------|-----------------------|------------------------|-------------------------|
| Monthly Flat Rate | \$76.95 | \$84.40 | \$ 7.45 | 9.69% |

COMPARISON OF RATES

ESCALATION YEAR 2013

| <u>Service</u> | <u>2012 Rates</u> | <u>Proposed Rates</u> | <u>Amount Increase</u> | <u>Percent Increase</u> |
|-------------------|-------------------|-----------------------|------------------------|-------------------------|
| Monthly Flat Rate | \$84.40 | \$91.86 | \$7.46 | 8.84% |

(END OF APPENDIX C)

APPENDIX D

Mecchi Water Company
ADOPTED QUANTITIES
 TEST YEAR 2011 AND ESCALATION YEARS 2012 AND 2013

Expenses:

1. Purchased power (Electric)

| | |
|--------------------------------|--------------------------|
| Vendor | Pacific Gas and Electric |
| Schedule | A-1 |
| Effective Date of Rates | March 1, 2011 |
| Number of Meters | 1 |
| kWh - Summer | 9,855 |
| kWh - Winter | 6,023 |
| Total kWh | 15,877 |
| Total Cost | \$2,993 |
| Composite Energy Cost (\$/kWh) | \$0.1878 |

2. Flat Rate Service Connections
 Additional Dwelling Units

27
 9

3. Water Production in Ccf

12,711

3. Depreciation Rate

2.5%

4. Tax calculation:

| Line No. | Item | Test Year 2011 | Escalation | |
|-------------|------------------------------|-------------------|------------|----------|
| | | | 2012 | 2013 |
| 1. | Operating Revenue | \$30,472 | \$33,424 | \$36,377 |
| 2. | O & M Expenses | \$26,389 | \$26,389 | \$26,389 |
| 3. | Taxes Other Than Income | \$0 | \$0 | \$0 |
| 4. | Depreciation | \$1,128 | \$1,128 | \$1,128 |
| 5. | Interest Expense | \$0 | \$0 | \$0 |
| 6. | Taxable Income for State Tax | \$2,954 | \$5,906 | \$8,859 |
| 7. | State Tax | \$800 | \$800 | \$800 |
| 8. | Taxable Income for FIT | \$2,154 | \$5,106 | \$8,059 |
| 9. | Federal Income Tax | \$323 | \$766 | \$1,209 |
| 10. | Total Income Tax | \$1,123 | \$1,566 | \$2,009 |

(END OF APPENDIX D)

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution W-4887 on all parties in this filing or their attorneys as shown on the attached list.

Dated September 20, 2011, at San Francisco, California.

/s/JOSIE L. JONES

Josie L. Jones

NOTICE

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

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DRAFT RESOLUTION W-4887

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