

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



April 30, 2012

Draft Resolution W-4917
Agenda ID #11301

TO: All Interested Persons

Enclosed is draft Resolution W-4917 of the Division of Water and Audits (DWA) approving a request by Penngrove Water Company's request for a general rate increase. 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-4917. An original of the comments, with a certificate of service, should be submitted to:

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

Division of Water and Audits, Third Floor
Attention: Rami 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 May 29, 2012.

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 Adam Thaler, email him at ajt@cpuc.ca.gov, or telephone him at (415) 703-3034.

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

Enclosures: Draft Resolution W-4917
Certificate of Service
Service List

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIADIVISION OF WATER AND AUDITS
Water and Sewer Advisory BranchRESOLUTION NO. W-4917
June 7, 2012**R E S O L U T I O N**

**(RES. W-4917), PENNGROVE WATER COMPANY (Penngrove).
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC),
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$26,016 OR
2.7% IN TEST YEAR (TY) 2012.**

SUMMARY

By Advice Letter (AL) No. 82, filed on November 7, 2011, Penngrove Water Company (PWC) seeks an increase in its rates for water service to fund needed improvements to the existing water system and provide the owner of the utility a return on equity commensurate with financial risk taken. For TY 2012, this resolution grants an increase in gross annual revenues of \$26,016 or 2.7%, which is estimated to provide a return on rate base of 11.5%.

Demand for water has declined significantly in each of PWC's service communities over the past three years. This has resulted in revenue shortfalls based on the adopted quantity levels authorized in the last GRC. Reduced quantity levels are the primary driver to the rate increases requested by PWC and as such, the increased service charges are primarily as a result of reduced sales due to conservation efforts.

The average residential customer in the Penngrove Town District using a 5/8 x 3/4-inch meter and consuming an average winter usage of 800 cubic feet per month will have a monthly bill increase from \$75.88 to \$95.28, or an increase of \$19.40 or 25.6%.

The average residential customer in the Canon Manor District using a 5/8 x 3/4-inch meter and consuming an average winter usage of 800 cubic feet per month will have a monthly bill increase from \$61.95 to \$86.54, or an increase of \$24.59 or 39.7%.

The average residential customer in the Penngrove Town District using a 1-inch meter and consuming an average winter usage of 800 cubic feet per month will have a monthly bill increase from \$111.26 to \$129.59, or an increase of \$18.33 or 16.5%.

The average residential customer in the Canon Manor District using a 1-inch meter and consuming an average winter usage of 800 cubic feet per month will have a monthly bill increase from \$99.16 to \$120.85, or an increase of \$21.69 or 21.9%.

BACKGROUND

PWC has requested 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 authorized revenue requirement by \$60,702 or 6.3%, in TY 2012. The increase in authorized revenues is to recover increased operating expenses and to provide an adequate rate of return. PWC's request shows gross revenues of \$961,529 at present rates that would increase to \$1,022,231 at proposed rates. PWC is requesting a rate of return of 12.25%.

The present rates were established on January 13, 2011 by Res. No. W-4589, which authorized a rate base offset revenue increase of \$37,649 or 4.7% additional revenue. The last GRC was granted on April 13, 2006, which authorized a gross revenue increase of \$36,812 or 6.4% in additional annual revenue.

PWC is owned by Mr. and Mrs. James Downey through Altos Sonoma Corporation. As of the end of 2011, PWC served approximately 693 metered service connections in two geographically separated districts - Penngrove Town (PT) (507 connections) and Canon Manor (CM) (186 connections) and therefore operates as a Class C water utility. These two districts are located in Sonoma County. Altos Sonoma Corp. has one other utility - Kenwood Water Company (Kenwood), which serves 304 connections.

PT's system is supplied exclusively through purchased water from the Sonoma County Water Agency via two pipes connected to the PWC system. The source of CM's water supply is two wells: one which is pumped using 5 and 15 horsepower (h.p.) submersible pumps; the second well has a 20 h.p. pump. The well water is pumped to two steel tanks with capacities of 212,000 and 334,000 gallons of storage. The water from the tanks is then boosted to the distribution system in CM via three booster pumps of 5, 10, and 15 h.p. The present distribution systems in PT and CM consist of approximately 101,200 feet of pipeline ranging from 2 to 10 inches in diameter.

DISCUSSION

Summary of Earnings

The Division of Water and Audits Staff (Staff) evaluated PWC's rate increase application. Appendix A provides a summary of PWC's and Staff's estimates of

operating revenues, expenses, and rate base at both present and PWC's proposed and Staff's recommended rates for TY 2012.

Operating Revenues

PWC's operating revenues consist exclusively of general metered sales.

PT and CM currently have a total of 693 metered connections classified as follows:

Penngrove Town District:

Meter Size	Number of Connections
Potable Water	
5/8 x 3/4 inch meter	465
3/4 inch meter	0
1 inch meter	37
1 1/2 inch meter	0
2 inch meter	5
TOTAL	507

Canon Manor District:

Meter Size	Number of Connections
Potable Water	
5/8 x 3/4 inch meter	136
3/4 inch meter	0
1 inch meter	50
1 1/2 inch meter	0
2 inch meter	0
TOTAL	186

Operating Expenses

PWC and the Staff differ in estimates for expenses at the proposed rates. The utility's estimate of most of the expenses, excluding purchased power and water, salaries, transportation, uncollectible accounts, and office services and rentals, is based on the

past three years from 2008 – 2010 while adding an additional inflation factor of 5% or 10% for each account. Staff applied a three-year average inflation-adjusted and constant-dollar and adjusted the applicable expenses for 2008, 2009, and 2010 applying the last updated approved Division of Ratepayer Advocates (DRA) inflation escalation factors, and then escalating each expense item for 2011 and TY 2012.

Purchased Water

For TY 2012, PWC estimates \$145,875 for purchased water while Staff recommends \$141,917. Purchased Water is exclusively delivered to the PT District.

From 2008 through 2010, total water purchased, produced, and sold has declined significantly as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Water Purchased (Ccf)	96,428	85,305	78,254	-
Total Water Sold (Ccf)	92,549	81,995	72,803	71,672
Total Unaccounted for Water (Ccf)	3,879 (4%)	3,310 (4%)	5,451 (7%)	-

1 CCF = 100 cubic feet of water

See Appendix D, Adopted Quantities, for a listing of purchased water costs and quantities.

PWC estimates a total water requirement of 72,892 Ccf. Staff concurs with the estimate based on examination of relevant water consumption. The Sonoma County Water Agency (SCWA) currently charges \$843.99 per acre-foot (\$1.9374 per Ccf). Staff and PWC agree on test year customers and water consumption. There are two 4-inch turnouts (meter connections) connecting SCWA to the PT system, each at a monthly service charge of \$29 per month, equating to \$696 annually.

PWC estimates \$145,875 on the assumption that SCWA rates will increase 5% beginning July 1, 2012. Should SCWA increase rates in the near future, PWC may file a purchased water offset advice letter to update the actual purchased water costs.

Based on the above purchased water rates, Staff estimates \$141,917 for purchased water for 2012.

Purchased Power

In TY 2012, PWC estimates \$12,310 for this account, and Staff concurs with PWC's estimate. PWC purchases power from the Pacific Gas & Electric Co. (PG&E). In its rate application, PWC provided detailed historical power usage records for each of its pumps along with pumped water quantities. PWC used recorded year kWh charges and appropriate service / customer charges to estimate power costs using expected pump usage (kWh/Ccf) based on recorded values. PWC's power usage is based on PG&E Tariff Schedules A-1 and A-10.

Staff recommends that \$12,310 be adopted for Purchased Power for TY 2012. Please see Appendix D, Adopted Quantities.

Other Volume Related Expenses

In TY 2012, PWC estimates \$1,456 for other volume related expenses while Staff recommends \$1,437. This account includes the cost of chemicals used in water treatment. PWC averages the past three recorded year's expenses plus an additional 5% inflation for chemicals to make its test year estimate of \$1,456. Staff calculated a value of \$1,437 applying the DRA non-labor inflation factors (6.2%, -3.6%, and 4.8% for 2008, 2009, and 2010, respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 5.2% non-labor inflation factor for 2011 and -0.7% for 2012.

Based on the above methodology, Staff estimates \$1,437 for other volume related expenses for TY 2012.

Allocation Factor of Combined Operations

PWC's parent company, Altos Sonoma Corporation, is the parent of two companies: (1) PWC Water Company (693 service connections) and (2) Kenwood Village Water Company (Kenwood) (304 service connections). Currently, this yields an allocation of 70%-PWC and 30%-Kenwood, hence, PWC has applied a 70% factor for all combined operations and functions discussed below.

Res. No. W-4709, dated September 18, 2008, authorized a general rate increase for Kenwood. In Kenwood's 2008 GRC, Staff applied allocation factors of 67% and 33% for PWC and Kenwood, respectively. Due to PWC's significant growth in the Canon Manor West District, the percentage of PWC's service connections have increased to 70%, hence, PWC has applied a 70% allocation factor for all combined operations accordingly.

When Altos Sonoma Corporation files its next general rate increase for Kenwood, the 30% allocation factor should apply for all combined operations accordingly.

Employee Labor

For TY 2012, PWC estimates \$86,233 for employee labor. PWC employs two water treatment operators for general water system operation including making water system repairs, turning on/off water services, reading meters, and other water system operational items. One operator is state-certified Distribution-2, Treatment-2 (D-2, T-2) with seven years experience with the company. The second operator is a D-3, T-2 with one year of company experience and 18 years of previous experience with another water company.

PWC has used the Association of California Water Agencies (ACWA) Salary and Benefits Survey published in 2010. Monthly salaries for equivalent water treatment operators range from \$3,451 to \$6,798 statewide and \$3,107 to \$5,636 for companies with up to five employees. The actual monthly salaries applied to the two operators yields \$10,266 per month, equating to \$123,192 annually for two employees.

Employee labor is allocated 70% to Penngrove yielding \$86,234 for TY 2012.

Materials

For TY 2012, PWC estimates \$19,655 for materials. This account includes all materials and supplies used in the operation and maintenance of the water system. PWC averages the past three recorded years expenses plus an additional 5% inflation to make its test year estimate of \$19,655. Staff calculated a value of \$20,461 applying the DRA non-labor inflation factors (6.2%, -3.6%, and 4.8% for 2008, 2009, and 2010 respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 5.2% non-labor inflation factor for 2011 and -0.7% for 2012.

Based on the above methodology, DWA estimates \$20,461 for materials for TY 2012.

Contract Work

For TY 2012, PWC estimates \$16,695 for contract work. This account also includes all costs associated with water testing, laboratory fees, and Department of Public Health (DPH) inspection fees. PWC averages the past three recorded years expenses plus an additional 5% inflation to make its test year estimate of \$16,695. Staff calculated a value of \$17,979 applying the DRA labor inflation factors (3.75%, 3.75%, and -0.3% for 2008,

2009, and 2010, respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 6.0% labor inflation factor for 2011 and 3.0% for 2012.

Based on the above methodology, Staff estimates \$17,979 for contract work for TY 2012.

Transportation

For TY 2012, PWC estimates \$11,169 for transportation while Staff recommends \$11,093. PWC averages the past three recorded year's expenses plus an additional 10% inflation to make its test year estimate of \$19,655. Staff calculated a value of \$11,093 applying the DRA non-labor inflation factors (6.2%, -3.6%, and 4.8% for 2008, 2009, and 2010 respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 5.2% non-labor inflation factor for 2011 and -0.7% for 2012.

Based on the above methodology, Staff estimates \$11,093 for transportation for TY 2012.

Other Plant Maintenance

For TY 2012, PWC estimates \$2,493 for other plant maintenance. This account includes all plant operation and maintenance expenses not related to the volume of water. PWC averages the past three recorded year's expenses plus an additional 5% inflation to make its test year estimate of \$2,493. Staff calculated a value of \$2,583 applying the DRA non-labor inflation factors (6.2%, -3.6%, and 4.8% for 2008, 2009, and 2010 respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 5.2% non-labor inflation factor for 2011 and -0.7% for 2012.

Based on the above methodology, Staff estimates \$2,583 for other plant maintenance for TY 2012.

Office Salaries

For TY 2012, PWC estimates \$38,300 for office salaries. PWC employs one person in this category with over 20 years of experience with the company.

PWC has used the Association of California Water Agencies (ACWA) Salary and Benefits Survey published in 2010. Monthly salaries for this equivalent position range from \$2,957 to \$7,855 statewide and \$2,520 to \$4,662 for companies with up to five employees. The salary for the office person is \$4,559 per month equating to \$54,708 annually. Applying the 70/30 Penngrove/Kenwood allocation factor described above, office salaries yield \$38,296 for TY 2012.

Management Salaries

For TY 2012, PWC estimates \$97,300 for management salaries. This position combines the role of two people as a collaborative management approach under this single position. One person assumes the duties as acting general manger, operations manager, accounting (non-taxes), billing, office supervision, field staff supervision, regulatory, legal, professional services, and all aspects of the day-to-day operation of the companies. A second person assumes a multitude of company management including, but not limited to development, interacting with the Sonoma County Water Agency, system improvements, and finance activities.

PWC has used the Association of California Water Agencies (ACWA) Salary and Benefits Survey published in 2010. Monthly salaries for this equivalent position range from \$9,555 to \$22,566 statewide and \$9,419 to \$18,966 for companies with up to five employees. Management salaries are \$11,000 per month equating to 132,000 annually.

Based on the above review, Staff estimates \$92,400 for management salaries for TY 2012.

Employee Benefits

For TY 2012, PWC estimated \$60,652 for this account. This amount covers all company employees of which \$15,232 is from 7% of W2 Wages and \$45,420 for health benefits for five employees for a total of \$60,652.

Staff reviewed employee benefits and concurs with PWC's request.

Uncollectible Accounts Expense

For TY 2012, PWC estimated \$1,801 for uncollectible accounts expense. This account is the amount PWC is unable to collect from its customers for services provided. Based on the three-year average from 2008 through 2010, Staff recommends applying an uncollectible factor or 0.00175 of revenues. Staff recommends \$1,767 for TY 2012.

Office Services and Rentals

In TY 2012, Penngrove estimated office rental expenses to be \$13,440. DWA reviewed the rental new lease agreement which commenced in July 2011 and concurs with Penngrove's request in the lease agreement occurring during the test year.

Office Supplies and Expenses

For TY 2012, PWC estimates \$17,698 for office supplies and expenses while Staff recommends \$14,195. This account includes the cost of office supplies and expenses including printing, stationary, general accounting supplies, repair, maintenance, telephone, utilities and other office expenses. PWC averages the past three recorded year's expenses plus an additional 10% inflation to make its test year estimate of \$17,698. Staff calculated a value of \$14,195 applying the DRA non-labor inflation factors (6.2%, -3.6%, and 4.8% for 2008, 2009, and 2010, respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 5.2% non-labor inflation factor for 2011 and -0.7% for 2012.

Based on the above methodology, Staff estimates \$14,195 for office supplies and expenses for TY 2012.

Professional Services

For TY 2012, PWC estimates \$9,676 for professional services. PWC averages the past three recorded year's expenses plus an additional 5% inflation to make its test year estimate of \$9,676. Staff calculated a value of \$10,033 applying the DRA non-labor inflation factors (6.2%, -3.6%, and 4.8% for 2008, 2009, and 2010 respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 5.2% non-labor inflation factor for 2011 and -0.7% for 2012.

Based on the above methodology, Staff estimates \$10,033 for professional services and expenses for TY 2012

Insurance

For TY 2012, PWC estimated \$19,838 for insurance. Insurance includes all costs including worker's compensation, liability, vehicle, fire and theft. PWC provided documentation of invoices, copies of the policy agreements, and a description of coverage limits in various risk categories. Insurance covers general risk contingencies including personal injury, fire damage, medical expenses, and other general aggregate materials relating to the utilities facilities.

Staff reviewed the insurance policies and concurs with PWC's request.

Regulatory Commission Expense

For TY 2012, PWC estimates \$0 for regulatory Commission expense. For rate-making purposes, this account includes all expenses incurred by the utility in connection with formal cases before the Commission. The Public Utilities Reimbursement Fee paid by all customers is not included in this account. PWC's regulatory filing work is considered a part of management duties. Staff concurs with PWC's estimate.

General Expenses

For TY 2012, PWC estimates \$2,901 for general expenses while Staff recommends \$2,873. PWC averages the past three recorded years' expenses plus an additional 5% inflation to make its test year estimate of \$2,901. Staff calculated a value of \$2,873 applying the DRA non-labor inflation factors (6.2%, -3.6%, and 4.8% for 2008, 2009, and 2010, respectively) to compute the three-year-average adjusted for 2011 dollars and then applying the 5.2% non-labor inflation factor for 2011 and -0.7% for 2012.

Based on the above methodology, Staff estimates \$2,873 for general expenses for TY 2012.

Taxes Other than Income

In TY 2012, Penngrove estimates \$36,810 for this account, and Staff concurs with Penngrove's estimate. Taxes other than income includes property taxes and franchise fees, payroll taxes, and other local taxes. Applying the 70/30 Penngrove/Kenwood allocation factor described above, taxes other than income yield \$36,810 for TY 2012.

Rate Base and Plant Investment

PWC added a significant amount of utility plant additions since the last general rate case in 2006. Capital plant improvements placed into service from 2006, PWC's last GRC, through 2010 total approximately \$2.52 million. Of this \$2.52 million, \$1.24 million was company funded (plant investment into ratebase) and the remaining \$1.28 million as contributed plant, Contribution-in-Aid-of-Construction (CIAC).

On January 10, 2012, at the request of Commission staff, PWC provided a detailed report of utility plant additions and requirements from 2006 through 2012 which itemized all plant additions, retirements, and depreciated plant. This information, in summary form, had also been compiled annually in compliance with the Commission's annual reporting requirements.

The only capital improvement included in this summary that has been previously approved by the Commission is the Dutch Lane East main replacement project which was authorized on January 13, 2011 via Res. W-4859 granting a rate base offset of \$141,432 for this project which increased revenues of \$37,649 or 4.69% over current rates at the time. This resolution authorizes the other ratebase additions accumulated since PWC's last general rate increase approved in Res. W-4593 dated April 13, 2006. Capital improvements include an additional storage tank, modernization of treatment facilities, distribution mains, metering, capitalized labor, etc.

PWC's AL 82 requested rates that would produce a return-on-ratebase of 12.25%. DWA's Utility Audit, Finance & Compliance Branch has conducted an analysis of the financial markets and the operational risk faced by Class C water companies and has determined that when this case was processed, the appropriate range for return on ratebase was 10.5 to 11.5%. The allowable range is based DWA's memo dated March 6, 2012 entitled "Rates of Return and Rates of Margin for Class C and Class D Water Utilities". Staff recommends a return-on-ratebase of 11.5%.

Staff reviewed and audited PWC's accounting summary of plant additions, retirements, and depreciated plant as shown in the Summary of Earnings in Appendix A.

Reduced Customer Demand for Water and Revenue Shortfalls

The Sonoma County Water Agency (SCWA) provides water to approximately 600,000 residents, primarily in Sonoma County, with wholesale water deliveries to cities and public agencies and large-usage customers, of which PWC is one.

SCWA promotes conservation as does the Commission's Water Action Plan. SCWA imposed mandatory reductions of water deliveries on all customers during the summer months of drought years 2007 and 2009. Water deliveries have declined dramatically with the success of conservation efforts. SCWA's rates have increased by 56% over the past five years, primarily due to reduced sales.

These factors have significantly impacted PWC's customer demand for water, not only in the Penngrove Town District but also in Canon Manor. In the Penngrove Town District alone, aggregate water demand for the three years following PWC's last GRC (2006 through 2008) averaged 92,106 Ccf per year, with minor year-to-year variations. In 2009, however, demand fell 11% from this baseline to 81,955 Ccf, partially attributed to SCWA's conservation mandate during the summer months. During the last two years, demand has continued to decline to the point where 2011 demand was approximately 22% below the 2006-2008 baseline.

In addition to the above, average daily water demand per active service connection, quantified in gallons per day per service connection (Gpdc), declined in both districts to a narrow range of 260 to 280 Gpdc despite the fact that the quantity rates in Canon Manor are lower than those in the Penngrove Town District. The data indicate that the current water demand is the result of new conservation awareness by all customers in the community.

In summary, water demand has declined significantly in each of PWC's service communities over the past three years. This has resulted in revenue shortfalls based on the adopted quantity levels authorized in the last general rate case. Reduced quantity levels are the primary driver to the rate increases requested by PWC.

Rate Design

Due to the revenue shortfalls described above, the adopted sales quantities are adjusted to reflect projected usage.

PWC proposed rate design shares all fixed costs among the customers in the two service districts by combining the two districts. In accordance with Decision 92-03-093, Class C water utilities, more than 500 service connections, such as PWC may collect up to 65% of fixed costs in the monthly service charge with the remainder collected through the quantity charge.

Prior to this GRC, PWC recovered 46% of its fixed costs through the service charge. With the rate design authorized in this resolution, the monthly service charge recovers approximately 60% of fixed costs

In order to promote conservation, PWC's quantity usage rates have two tiers. PWC's current tariff schedules have a break point between the tiers set at 5 Ccf per month. The baseline for the second-tier should be based on average domestic usage during the winter months when irrigation is minimally applied. Staff submitted a data request to PWC asking for the average monthly consumption for domestic customers over the past three years. The historical winter averages are as follows:

	<u>Penngrove Town</u>	<u>Canon Manor District</u>
2008	9.26 Ccf	8.24 Ccf
2009	8.88 Ccf	8.21 Ccf
2010	8.22 Ccf	8.26 Ccf

Based on the above findings, Staff recommends that the second-tier baseline be changed to conform with the domestic-use winter-month average and be raised from 5 Ccf to 8

Ccf per month. Once customers exceed 8 Ccf per month of usage, the higher quantity rate shall apply.

NOTICE, PROTESTS, AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on or prior to November 1, 2011 and customers commented on PWC's application for a rate increase. Approximately 18 letters and emails of protest were received. Nearly all of the protests received were regarding restructuring of the rates, in particular, the significant increase in the service charge due to the high fixed costs. Staff has reviewed and considered the customer comments in this resolution.

A field investigation and an informal public meeting were held on December 12, 2011 at the Rancho Adobe Fire House in Sonoma County with approximately 51 customers in attendance. The branch representative, Adam Thaler, explained Commission procedures as well as the purpose of the meeting. Mr. Downey explained the need for the rate increase. The concerns were raised during the meeting consisted of comments and questions by the customers primarily regarding the significant increase in the service charge due to the declining water usage. The rest of the questions were general in nature and dealt with PWC's revenues, expenses, capital investments, and the requested increase. Many of the customers signed a sign-in sheet with their names and email addresses requesting a copy of the draft resolution along with the opportunity to comment formally on the proposed rate increase. The meeting adjourned at 9:00 p.m.

COMPLIANCE

PWC has no outstanding compliance orders and has been filing annual reports as required. The DPH performed inspection annually and the findings are that the system has no major deficiencies.

COMMENTS

Public Utilities Code §311(g) (1) provides that this resolution be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Public Utilities Code §311(g) (2) provides that this 30-day period may be waived or reduced upon stipulation of all parties in the proceeding.

The 30-day comment period for the draft resolution was neither waived nor reduced. Accordingly, the draft resolution was mailed to parties for comments, and will be

placed on the Commission's agenda no earlier than 30 days from the date of mailing the resolution to the parties.

FINDINGS AND CONCLUSIONS

1. Penngrove Water Company (PWC) seeks an increase in its rates for water service primarily as a result of reduced sales due to conservation efforts.
2. PWC has requested 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 authorized revenue requirement by \$60,702 or 6.3%, in Test Year 2012.
3. For Test Year 2012, this resolution grants an increase in gross annual revenues of \$26,016 or 2.7%, which is estimated to provide a return on rate base of 11.5%.
4. The present rates were established on January 13, 2011 by Res. No. W-4589, which authorized a rate base offset revenue increase of \$37,649 or 4.7% additional revenue.
5. The last general rate case was granted on April 13, 2006, which authorized a gross revenue increase of \$36,812 or 6.4% in additional annual revenue.
6. PWC's parent company, Altos Sonoma Corporation, is the parent of two companies: (1) PWC (693 service connections); and (2) Kenwood (304 service connections).
7. PWC is owned by Mr. and Mrs. James Downey through Altos Sonoma Corporation.
8. Altos Sonoma Corp. has one other utility - Kenwood Water Company (Kenwood), which serves 304 connections.
9. As of the end of 2011, PWC served approximately 693 metered service connections.
10. PWC serves two geographically separated communities - Penngrove Town (PT) (507 connections) and Canon Manor (CM) (186 connections) located in Sonoma County.
11. PT's system is supplied exclusively through purchased water from the Sonoma County Water Agency via two pipes connected to the PWC system.

12. The source of CM's water supply is two wells.
13. The Division of Water and Audits Staff (Staff) evaluated PWC's rate increase application.
14. The Summary of Earnings of PWC's and Staff's estimates of operating revenues, expenses, and rate base for Test Year (TY) 2012 are reasonable and should be adopted.
15. Staff's recommended rates for TY 2012 are reasonable and should be adopted.
16. PWC's operating revenues consist exclusively of general metered sales.
17. PWC's operating expenses, as modified by Staff, for TY 2012 are reasonable and should be adopted.
18. Resolution No. W-4709, dated September 18, 2008, authorized a general rate increase for Kenwood Village Water Company (Kenwood).
19. In Kenwood's 2008 GRC, Staff applied allocation factors of 67% and 33% for PWC and Kenwood, respectively for combined duties and expenses.
20. For TY 2012, PWC applied allocation factors of 70%-PWC and 30%-Kenwood based upon the current number of service connections for each company.
21. When Altos Sonoma Corporation files its next general rate increase for the Kenwood Village Water Company, the 30% allocation factor should apply for all combined operations.
22. The Canon manor service area extension attributed to additional growth since the last GRC added approximately 50 service connections.
23. Capital plant improvements placed into service from 2006, PWC's last general rate case through 2010 total approximately \$2.52 million. Of this \$2.52 million, \$1.24 million was company funded (plant investment into ratebase) and the remaining \$1.28 million as contributed plant, Contribution-in-Aid-of Construction (CIAC).
24. The rate base and capital improvements are reasonable and should be adopted.

25. PWC has experienced a significant reduction in customer demand for water resulting in revenue shortfalls.
26. The Sonoma County Water Agency (SCWA) provides water to approximately 600,000 residents, primarily in Sonoma County, with wholesale water deliveries to cities and public agencies and large-usage customers.
27. PWC is a large-usage customer of SCWA.
28. SCWA imposed mandatory reductions of water deliveries on all customers during the summer months of drought years 2007 and 2009.
29. Water deliveries have declined dramatically with the success of conservation efforts.
30. SCWA's rates have increased by 56% over the past five years, primarily due to reduced sales.
31. PWC's customer demand for water has declined in both the Penngrove Town and Canon Manor communities.
32. In the Penngrove Town District, aggregate water demand for the three years following PWC's last general rate increase (2006 through 2008) averaged 92,106 Ccf per year, with minor year-to-year variations.
33. In 2009, demand fell 11% from this baseline to 81,955 Ccf, partially attributed to SCWA's conservation mandate during the summer months.
34. During the last two years demand has continued to decline to the point where 2011 demand was approximately 22% below the 2006-2008 baseline.
35. Daily water demand per active service connection, quantified in gallons per day per service connection (Gpdc), declined in both districts to a narrow range of 260 to 280 Gpdc.
36. Water demand has declined significantly in each of PWC's service communities over the past three years resulting in revenue shortfalls based on the adopted quantity levels authorized in the last general rate case.
37. Reduced quantity levels are the primary driver to the rate increases requested by PWC.

38. The adopted sales quantities are adjusted to reflect both actual and projected usage.
39. PWC proposed rate design shares all fixed costs among the customers in the two service districts by combining the two districts.
40. In accordance with Decision 92-03-093, Class C water utilities, more than 500 service connections, such as PWC may collect up to 65% of fixed costs in the monthly service charge with the remainder collected through the quantity charge.
41. Prior to this GRC, PWC recovered 46% of its fixed costs through the service charge.
42. The current rate design allocates the monthly service charge to recover 60% of fixed costs through the service charge.
43. In order to promote conservation, PWC's quantity usage rates have two tiers.
44. PWC's current tariff schedules have a break point between the tiers set at 5 Ccf per month.
45. The baseline for the second-tier is based on average domestic usage during the winter months when irrigation is minimally applied.
46. Staff reviewed the average monthly consumption for domestic customers over the past three years and recommends that the second-tier baseline be changed to conform to the domestic-use winter-month average and be raised from 5 Ccf to 8 Ccf per month.
47. A notice of the proposed rate increase was mailed to each customer on or prior to November 1, 2011 and customers commented on PWC's application for a rate increase.
48. Nearly all of the comments received were regarding restructuring of the rates, in particular, the significant increase in the service charge.
49. A field investigation and an informal public meeting were held on December 12, 2011 at the Rancho Adobe Fire House in Sonoma County with approximately 51 customers in attendance.

50. PWC should be authorized to increase its annual revenues by \$26,016 or 2.7%, based on reasonable rates for 2012.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Penngrove Water to file a supplemental advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. P-1, Metered Service, (Penngrove District) and Schedule No. CM-1, Metered Service, (Canon Manor District). The effective date of the revised schedules shall be five days after the date of filing.
2. Penngrove Water Company is authorized to increase its annual revenues by \$26,016 or 2.7%, based on reasonable rates for 2012.
3. When Altos Sonoma Corporation files its next general rate increase for the Kenwood Village Water Company, the 30% allocation factor shall apply for all combined operations.
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 June 7, 2012; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

Appendix A
Penngrove Water Company

Summary of Earnings

Test Year 2012

<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>					
General Metered Revenue	\$959,234	\$1,019,936	\$959,234	\$1,019,936	\$985,250
General Unmetered Revenue	\$0	\$0	\$0	\$0	\$0
Reclaimed Water Sales	\$0	\$0	\$0	\$0	\$0
Private Fire	\$2,295	\$2,295	\$2,295	\$2,295	\$2,295
Other Water Revenue	\$0	\$0	\$0	\$0	\$0
Other Unmetered Revenue	\$0	\$0	\$0	\$0	\$0
Total Revenue:	\$961,529	\$1,022,231	\$961,529	\$1,022,231	\$987,545
<u>Operating Expenses</u>					
610 Purchased Water	\$145,875	\$145,875	\$145,875	\$145,875	\$141,917
615 Purchased Power	\$12,310	\$12,310	\$12,310	\$12,310	\$12,310
618 Other Volume Related Expenses	\$1,456	\$1,456	\$1,456	\$1,456	\$1,437
630 Employee Labor	\$86,233	\$86,233	\$86,233	\$86,233	\$86,233
(Labor Capitalized)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
640 Materials	\$19,655	\$19,655	\$19,655	\$19,655	\$20,461
650 Contract Work	\$16,695	\$16,695	\$16,695	\$16,695	\$17,979
Water Testing					
660 Transportation Expenses	\$11,169	\$11,169	\$11,169	\$11,169	\$11,093
664 Other Plant Maintenance	\$2,493	\$2,493	\$2,493	\$2,493	\$2,583
670 Office Salaries	\$38,300	\$38,300	\$38,300	\$38,300	\$38,296
671 Management Salaries	\$97,300	\$97,300	\$97,300	\$97,300	\$92,400
674 Employee Benefits	\$60,652	\$60,652	\$60,652	\$60,652	\$60,652
676 Uncollectibles Expense	\$1,801	\$1,801	\$1,801	\$1,801	\$1,767
678 Office Services & Rentals	\$13,440	\$13,440	\$13,440	\$13,440	\$13,440
681 Office Supplies & Expenses	\$17,698	\$17,698	\$17,698	\$17,698	\$14,195
682 Professional Services	\$9,676	\$9,676	\$9,676	\$9,676	\$10,033
684 Insurance	\$19,838	\$19,838	\$19,838	\$19,838	\$19,838
688 Regulatory Commission Expense	\$0	\$0	\$0	\$0	\$0
689 General Expenses	\$2,901	\$2,901	\$2,901	\$2,901	\$2,873
Subtotal	\$549,492	\$549,492	\$549,492	\$549,492	\$539,505
Depreciation	\$55,296	\$55,296	\$55,296	\$55,296	\$55,296
Taxes other than Income	\$36,810	\$36,810	\$36,810	\$36,810	\$36,810
Income Taxes	\$121,375	\$152,222	\$121,375	\$152,222	\$141,507
Interest	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$762,973	\$793,820	\$762,973	\$793,820	\$773,118
Net Revenue	\$198,556	\$228,411	\$198,556	\$228,411	\$214,427
Rate Base:	\$1,864,581	\$1,864,581	\$1,864,581	\$1,864,581	\$1,864,581
<u>Rate of Return</u>	10.65%	12.25%	10.65%	12.25%	11.50%

APPENDIX B

Schedule No. P-1

METERED SERVICE

Penngrove District

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Penngrove and vicinity, Sonoma County.

RATES

Quantity Rates:

First 800 cu. ft. per 100 cu. ft.	\$	5.312	(I)
Over 800 cu. ft. per 100 cu. ft.	\$	6.173	(I)
Over 1000 cu. ft. per 100 cu. ft.			

Service Charge:

Per Meter Per Month

For	5/8 x 3/4-inch meter	.....	\$	52.78	(I)
For	3/4-inch meter	.....	\$	79.18	|
For	1-inch meter	.....	\$	7.09	|
For	1-1/2-inch meter	.....	\$	158.35	|
For	2-inch meter	.....	\$	422.27	(I)

The service charge is a readiness to service charge which is applicable to all metered services and to which is added to the charge for water and used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to reimbursement fee as set forth in schedule UF.

(D)

APPENDIX B

Schedule No. CM-1

METERED SERVICE

Canon Manor District

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Canon Manor and vicinity, Sonoma County.

RATES

Quantity Rates:

First 800 cu. ft.	800 cu. ft. per 100 cu. ft.	\$	4.904	(I)
Over 1000 cu. ft.	per 100 cu. ft.			

Service Charge:

Per Meter Per Month

For 5/8 x 3/4- inch meter	\$	52.78	(I)
For 3/4- inch meter	\$	79.19	|
For 1- inch meter	\$	87.09	|
For 1-1/2- inch meter	\$	158.35	|
For 2- inch meter	\$	422.27	(I)

The service charge is a readiness to service charge which is applicable to all metered services and to which is added to the charge for water and used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to reimbursement fee as set forth in schedule UF.

(D)

APPENDIX C

Penngrove Water Company
Penngrove Town District

COMPARISON OF RATES
TEST YEAR 2012

Service Charges:		Per Service Connection Per Month		
		Present Rates	Recommended Rates	Percent Increase
For	5/8 x 3/4 inch meter	\$31.67	\$52.78	66.7%
	1 inch meter	\$67.05	\$87.09	29.9%
	2 inch meter	\$140.06	\$422.27	200.1%

Quantity Charges:

First 800 cu. ft. per 100 cu. ft.	\$4.913*	\$5.312	8.1%
Over 800 cu. ft. per 100 cu. ft.	\$6.548*	\$6.173	-5.7%

* The baseline for quantity rates has increased from 500 cu. ft. to 800 cu. ft.

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

<u>Usage</u> <u>100 cu. ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$31.67	\$52.78	\$21.11	66.7%
5	\$56.24	\$79.34	\$23.11	41.1%
8	\$75.88	\$95.28	\$19.40	25.6%
10	\$88.98	\$107.62	\$18.65	21.0%
15	\$121.72	\$138.49	\$16.77	13.8%
20	\$154.46	\$169.35	\$14.90	9.6%
30	\$219.94	\$231.08	\$11.15	5.1%

APPENDIX C

Penngrove Water Company
Penngrove Town District

COMPARISON OF RATES
TEST YEAR 2012

Comparison of average monthly customer bill at present and authorized rates for:
a 1-inch meter service using various quantities of water:

<u>Usage</u> <u>100 cu. ft</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$67.05	\$ 87.09	\$20.04	29.9%
5	\$91.62	\$113.65	\$22.04	24.1%
8	\$111.26	\$129.59	\$18.33	16.5%
10	\$124.36	\$141.93	\$17.58	14.1%
15	\$157.10	\$172.80	\$15.70	10.0%
20	\$189.84	\$203.66	\$13.83	7.3%
30	\$255.31	\$265.39	\$10.08	3.9%

APPENDIX C

Penngrove Water Company
Canon Manor District

COMPARISON OF RATES

TEST YEAR 2012

Service Charges:		<u>Per Service Connection Per Month</u>		
		<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For	5/8 x 3/4-inch meter	\$42.19	\$52.78	25.1%
	1 inch meter	\$79.40	\$87.09	9.7%
	2 inch meter	\$190.25	\$422.27	122.0%

Quantity Charges:

First 800 cu. ft. per 100 cu. ft.	\$2.106*	\$4.220	100.4%
Over 800 cu. ft. per 100 cu. ft.	\$6.548*	\$4.904	-25.1%

* The baseline for quantity rates has increased from 500 cu. ft. to 800 cu. ft.

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

<u>Usage</u> 100 cu. ft.	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$42.19	\$52.78	\$10.59	25.1%
5	\$52.72	\$73.88	\$21.16	40.1%
8	\$61.95	\$86.54	\$24.59	39.7%
10	\$71.62	\$96.35	\$24.73	34.5%
15	\$87.01	\$120.87	\$33.86	38.9%
20	\$102.39	\$145.39	\$43.00	42.0%
30	\$133.16	\$194.43	\$61.27	46.0%

APPENDIX C

Penngrove Water Company
Canon Manor District

COMPARISON OF RATES
TEST YEAR 2012

Comparison of average monthly customer bill at present and authorized rates for:
a 1-inch meter service using various quantities of water:

<u>Usage</u> <u>100 cu. ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$79.40	\$ 87.09	\$ 7.69	9.7%
5	\$89.93	\$108.19	\$18.26	20.3%
8	\$99.16	\$120.85	\$21.69	21.9%
10	\$105.31	\$130.66	\$25.34	24.1%
15	\$120.70	\$155.18	\$34.48	28.6%
20	\$136.09	\$179.70	\$43.61	32.0%
30	\$166.85	\$228.74	\$61.88	37.1%

APPENDIX D-1

Penngrove Water Company

ADOPTED QUANTITIES
TEST YEAR 2012

Expenses:

1. Purchased Power (Electric)

Vendor	Pacific Gas & Electric Company	
Schedule:	A-10 – Medium General Demand – Metered Service	
Effective Date:	5/1/2010	
		<u>\$12,310</u>

2. Purchased Water

		Units purchased in Ccf
Sonoma County Water Agency		72,892
Effective Date		7/1/2011

3. Contract Work

(DPH and EPA Lab Fees only)		\$19,655
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4. Water Sales (CCF)

Penngrove Town District:		69,500
Canon Manor District:		23,600

APPENDIX D-2

Penngrove Water Company

ADOPTED QUANTITIES
TEST YEAR 2012

Line No.	Item	State Tax	Federal Tax
1	Operating Revenue	\$970,781	\$970,781
2	O & M Expenses	\$539,505	\$539,505
3	Taxes Other than Income	\$36,810	\$36,810
4	Depreciation	\$55,296	\$55,296
5	Taxable Income for State Tax	\$339,170	
6	State Tax	\$29,983	
7	Federal Taxable Income		\$309,187
8	Federal Income Tax		\$104,083
9	Total Income Tax (State plus Federal)		\$134,066

California Corporate Franchise Tax Rate: 8.84%

Federal Corporate Income Tax Rates:

Taxable Income Over:	Not Over:	Tax Rate:
\$0	\$50,000	15%
\$50,000	\$75,000	25%
\$75,000	\$100,000	34%
\$100,000	\$335,000	39%

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution W-4917 on all parties in this filing or their attorneys as shown on the attached list.

Dated April 30, 2012, 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.

SERVICE LIST
DRAFT RESOLUTION W-4917
Sheet 1

Mr. and Mrs. James Downey
Owners
Penngrove Water Company
4984 Sonoma Highway
Santa Rosa, CA 95409

Susan Sommers
City of Petaluma
P. O. Box 61
Petaluma, CA 94953

City of Rohnert Park
P. O. Box 1489
Rohnert Park, CA 94927

American Water Co.
C/o Dave Stephenson
4701 Beloit Drive
Sacramento, CA 95838

Paul Karmouche
1776 Alice Drive
Penngrove, CA 94951

Jacquelyn de l'Eau
102 Sesame Street
Penngrove, CA 94951

SERVICE LIST
DRAFT RESOLUTION W-4917
Sheet 2

Michael Dinh
1700 Alan Drive
Penngrove, CA 94951

Marilyn Wilson
802 Goodwin
Penngrove, CA 94951

Steve Silveri
18557 Alice Dr.
Penngrove, CA 94951

Dennis R. Adler
1768 William Dr.
Penngrove, CA 94951

Laurel Maurer
P.O. Box 512
Penngrove, CA 94951

Martin and Kelly Sessi
2555 Mountain Ranch Road
Petaluma, CA 94954

Aaron Lowenthal, Kaitlin Sessi, & Baby Adrienna
235 Kaite Lane
Penngrove, CA 94951

Maureen Constantino
55 Crest Way
Penngrove, CA 94951

SERVICE LIST
DRAFT RESOLUTION W-4917
Sheet 3

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