

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Draft Resolution No. W-4688  
Agenda ID #7577

April 29, 2008

TO: Parties to Timberland Water Company General Rate Increase

Enclosed is draft Resolution W-4688 of the Division of Water and Audits. It will be on the Commission's May 29, 2008 agenda. The Commission may then act on this Resolution or it may postpone action until later.

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

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

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

Parties may submit comments on or before May 19, 2008. The date of submission is the date the comments are received by the Division of Water and Audits. Parties must serve a copy of their comments on all persons on the service list attached to the draft Resolution, on the same date that the comments are submitted to the Division of Water and Audits.

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

Comments shall focus on factual, legal, or technical errors in the draft resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted. Late submitted comments will not be considered.

/s/ RAMI KAHLON

Rami Kahlon, Director  
Division of Water and Audits

Enclosures: Draft Resolution W-4688  
Certificate of Service  
Service List

WATER/RSK/MRB:jrb

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**DIVISION OF WATER AND AUDITS  
Water & Sewer Advisory BranchRESOLUTION W-4688  
May 29, 2008**R E S O L U T I O N**

**(RES. W-4688), TIMBERLAND WATER COMPANY (TWC). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUES OF \$21,873 OR 29.4% IN 2008.**

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**SUMMARY**

By Draft Advice Letter accepted on December 17, 2007, TWC seeks to increase its rates to recover increases in operating costs and a return on its rate base at an adequate rate of return. For test year 2008, this resolution grants an increase in gross annual revenues of \$21,873 or a system-wide increase of 29.4%. The increase will provide a 13.25% rate of return on a rate base of \$180,485.

**SYSTEM DESCRIPTION**

TWC provides domestic water service to 113 residential flat rate connections, 16 metered residential customers and, by written agreement, public fire protection water service to 12 fire hydrants. The service territory is in the Timberland Subdivision, three miles south of Tahoe City on Lake Tahoe, Placer County. System maintenance is done by the owner of TWC, or by contract.

TWC's present rates became effective on February 18, 2003 for year 2003 pursuant to Commission Resolution W-4370 of January 16, 2003 granting a general rate increase.

TWC requested authority under Sections 7.2 and 7.3(3) of General Order 96-B and §454 of the Public Utilities Code to increase rates for water service by \$13,000 or 6% in 2008. TWC's request shows 2008 gross revenue of \$76,024 at present rates increasing to \$88,156 at proposed rates.

**Summary of Earnings**

The Branch made an independent analysis of TWC's summary of earnings. Appendix A shows TWC's and the Branch's estimates of the summary of earnings at present,

requested, and recommended rates for Test Year 2008. The final column shows the revenues and expenses adopted by the Commission.

Branch's estimate of revenues at proposed rates is \$8,309 higher than TWC's because: 1) TWC did not include Federal income tax or sufficient State income tax. Although TWC is owned as an S-Corporation, the Commission views State and Federal corporate income taxes as deductions from water company gross revenue; 2) TWC's estimate of revenue includes the Commission user fee, which it should not; 3) TWC included all contract work as expense, and Branch estimated that \$7,623 of costs listed as contract work would be for new plant in service; and 4) TWC did not request a return on rate base. Branch included a 13.35% return on rate base.

#### Operating Expenses

Some of the larger expenses listed by TWC were reclassified by the Branch. These include:

##### Account 620 - Other Volume Related Expenses

TWC estimated \$670 for Other Volume Related Expenses and Branch estimated \$0. TWC agrees that the expenses listed belong in other accounts.

##### Account 640 - Materials

TWC estimated \$1,830 for materials and Branch estimated \$1,108. The other \$722 was for materials used in new plant in service.

##### Account 650 - Contract Work

TWC estimated \$16,112 for contract work, and Branch estimated \$8,489. The other \$7,623 was for construction of new plant in service.

##### Account 688 - Regulatory Commission Expense

TWC estimated \$1,073 per year, the amount TWC reimbursed the Commission in user fees last year. Branch estimated \$0, because the CPUC user fee is not income or expense for ratemaking.

##### Account 689 - General Expense

TWC estimated \$249 per year for general expense. Branch estimated \$1,052, after reclassification of certain expenses.

##### Account 409 - Income Taxes

TWC estimated only \$800 per year for income taxes whether or not the company makes a profit. The Branch estimates \$6,800 for State and Federal income taxes.

Ratebase

TWC estimated rate base to be \$169,057. Branch estimates rate base to be \$180,485. Branch shows more average plant in service, more depreciation reserve, and less contributions in aid of construction.

**NOTICE TO CUSTOMERS**

On February 14, 2008, a Notice of Proposed Rate Increase was mailed to all customers announcing TWC's request to increase water rates by \$15,645 or 19.9% over present rates, and announcing a public meeting for February 29, 2008. Proposed new rate schedules were included.

**PUBLIC MEETING**

A public meeting was held on February 29, 2008, between 6:30 PM and 8:00 PM in a meeting room of the Tahoe City Public Utility District. Four customers attended. TWC owner John Ballard explained the need for the rate increase, telling of new plant put in service and plans for future improvements. Customer questions were primarily about specific expenditures, and about the CPUC rate case process.

**CUSTOMER COMPLAINTS**

There were no complaints about water quality or water service. Customer statements focused on the need for better communications from the company, and customer desire to see more detailed information about water company expenses.

**RATE DESIGN**

At existing rates, the cost of service for the average customer with a 3/4-inch meter is \$584.96 per year, while a flat rate customer with a 3/4-inch connection is charged \$430.00 per year. The rate design proposed by the Branch increases the cost of flat rate service more than metered service, to reduce this disparity.

**COST OF CAPITAL**

Rate of Return on Rate Base

TWC did not request a return on rate base. Effective March 10, 2008, the Water Division's Utility Audit, Finance, and Compliance Branch (A&C) recommends a rate of return on rate base from 12.75% to 13.75% for 100%-equity-financed Class D water companies [those with less than 500 customers]. TWC is a Class D water company with 129 active customers. The Water and Sewer Advisory Branch of the Water and Audits Division recommends the average rate of return on rate base authorized for a Class C

water company, 13.25%. With a rate base of \$180,485 this would require a net revenue of \$23,914 after expenses and deductions.

Rate of Margin

A&C recommends a rate of margin of 20% for Class D water companies. The rate of margin is a percentage of the sum of operating expenses plus taxes and depreciation. A 20% rate of margin would require \$13,104 in net revenue.

Rate of Return on Rate Base Selected

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

**COMMENTS**

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

The 30-day comment period for the draft of this Resolution was neither waived nor reduced. Accordingly, this draft Resolution was mailed to all parties for comments. The comments were received on \_\_\_\_\_

**FINDINGS AND CONCLUSIONS**

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
3. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code §454 for Timberland Water Company to file an advice letter incorporating the Summary of Earnings and the revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate schedules - 1A, Annual General Metered Service, and 2RA, Annual Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of its filing.
2. 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 May 29, 2008; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

**APPENDIX A  
TIMBERLAND WATER COMPANY  
SUMMARY OF EARNINGS  
TEST YEAR 2008**

	Utility Estimated		Branch Estimated		Adopted
	Present	Proposed	Present	Proposed	Rates
	Rates	Rates	Rates	Rates	
Unmetered Revenue	54,000	62,463	52,390	68,803	68,803
Fire Protection Revenue	245	245	245	245	245
Metered Revenue	22,000	25,448	21,724	27,185	27,185
Total Revenue	76,245	88,156	74,359	96,233	96,233
<b>Operating Expenses</b>					
Power	3,564	3,564	3,666	3,666	3,666
Other Volume Related Expenses	670	670	0	0	0
Employee Labor	0	0	0	0	0
Materials	1,830	1,830	1,108	1,108	1,108
Contract Work	16,112	16,112	8,489	8,489	8,489
Water Testing	1,619	1,619	1,700	1,700	1,700
Transportation Expense	1,513	1,513	2,086	2,086	2,086
Other Plant Maintenance	0	0	0	0	0
Office Salaries	5,000	5,000	5,250	5,250	5,250
Management Salaries	24,000	24,000	25,200	25,200	25,200
Employee Pensions and Benefits	0	0	0	0	0
Uncollectable Expense	0	0	0	0	0
Office Services & Rentals	0	0	225	225	225
Office Supplies Expense	4,698	4,698	4,127	4,127	4,127
Professional Services	728	728	656	656	656
Insurance	1,844	1,844	1,936	1,936	1,936
Regulatory Commission Expense	1,073	1,073	0	0	0
General Expense	249	249	1,052	1,052	1,052
<b>Total Operating Expenses</b>	62,900	62,900	55,494	55,494	55,494
Depreciation Expense	8,000	8,000	8,024	8,024	8,024
Taxes Other Than Income Taxes	2,000	2,000	2,000	2,000	2,000
Income Taxes	800	800	2,006	6,800	6,800
<b>Total Deductions</b>	82,590	82,590	67,524	72,318	72,318
<b>Utility Operating Income</b>	(6,345)	5,566	6,835	23,914	23,914
<b><u>Rate Of Return On Rate Base</u></b>	-3.75%	3.29%	3.79%	13.25%	13.25%
Rate Of Margin Amount	16,358	16,358	13,104	13,104	13,104
Rate Of Margin Percent	20%	20%	20%	20%	20%

**APPENDIX B**  
**Sheet 1**

**TIMBERLAND WATER COMPANY**  
**TEST YEAR 2008**

**Schedule No. 1A**

**ANNUAL GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service furnished on an annual basis.

**TERRITORY**

Timberland and vicinity, located approximately three miles south of Tahoe City, Placer County.

**RATES**

Quantity Rate:

All Water, per 100 cu. ft.	\$1.857	(I)
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Annual Service Charge:

	<u>Per Meter</u>	
	<u>Per Year</u>	
For 5/8 x 3/4-inch meter	\$ 318.15	(I)
For 3/4-inch meter	\$ 477.23	
For 1-inch meter	\$ 795.38	
For 1.5-inch meter	\$1,590.75	
For 2-inch meter	\$2,545.20	
For 3-inch meter	\$4,772.25	
For 4-inch meter	\$7,953.75	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water computed at the Quantity Rate.

(continued)

**APPENDIX B**  
**Sheet 2**

**TIMBERLAND WATER COMPANY**  
**TEST YEAR 2008**

**Schedule No. 2RA**

**ANNUAL RESIDENTIAL FLAT RATE SERVICE**

**APPLICABILITY**

Applicable to all flat rate residential services furnished on an annual basis.

**TERRITORY**

Timberland and vicinity, located approximately three miles south of Tahoe City, Placer County.

**RATES**

	<u>Per Service Connection</u> <u>Per Year</u>	
For each-single-family residential unit, including premises	\$577.15	(I)
For each additional single family residential unit on the same premises and served from the same service connection	\$370.65	(I)

**SPECIAL CONDITIONS**

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. An additional single family residential unit shall qualify for additional charge only if such a residential unit includes cooking and bathing facilities.
3. For services covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

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**APPENDIX C  
TIMBERLAND WATER COMPANY  
TEST YEAR 2008  
COMPARISON OF RATES**

	Previous Rate	New Rate	Percent Increase
<b>METERED RATES</b>			
5/8 x 3/4-inch meter	\$250.80	\$318.15	26.9%
3/4-inch meter	\$375.60	\$477.23	27.1%
1-inch meter	\$625.80	\$795.38	27.1%
1-1/2-inch meter	\$1,251.60	\$1,590.75	27.1%
2-inch meter	\$2,002.80	\$2,545.20	27.1%
3-inch meter	\$3,755.40	\$4,772.25	27.1%
4-inch meter	\$6,258.00	\$7,953.75	27.1%
All water, per 100 cu. ft.	\$1.510	\$1.857	23.0%
<b>FLAT RATES</b>			
For each-single-family residential unit, including premises	\$430.00	\$577.15	34.2%
For each additional single-family residential unit on the same premises and served from the same service connection	\$275.00	\$370.65	34.8%



CERTIFICATE OF SERVICE

I certify that I have by mail this day served a copy of Draft Resolution W-4688 on all parties in this filing or their attorneys as shown on the attached list.

Dated April 29, 2008, at San Francisco, California.

/s/ JOSIE R. BABARAN

Josie R. Babaran

NOTICE

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 on the service list on which your name appears.

SERVICE LIST  
DRAFT RESOLUTION W-4688

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