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**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**DIVISION OF WATER & AUDITS**  
Water & Sewer Advisory Branch

**RESOLUTION W-4783**  
September 10, 2009

**R E S O L U T I O N**

**(RES. W-4783), BLACK BUTTE WATER COMPANY, INC. (BBWC).  
ORDER AUTHORIZING AN INTERIM GENERAL RATE INCREASE  
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$4,291 or 21.7%  
IN 2009.**

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**SUMMARY**

This Resolution grants BBWC an interim increase in gross annual revenue of \$4,291 or 21.7%, for test year 2009. The increase will provide a 24% return on margin for Test Year 2009.

**BACKGROUND**

BBWC, a Class D water utility, by informal advice letter accepted on September 9, 2008, requested authority under General Order 96-B, Rule 7.6.2, Water Industry Rule 7.3.3(5) and Section 454 of the Public Utilities Code to increase overall rates for water service by \$5,064 (26.0%) in Test Year 2008. This would produce a 25% return on margin. These figures were reviewed on the basis of a Test Year 2009.

BBWC's present Commission-authorized rates became effective on December 1, 1975 in a general rate increase authorized by Resolution (Res.) No. W-1830, which increased rates by 100%. In 1995 BBWC increased rates without Commission authorization.

**SYSTEM DESCRIPTION**

BBWC is a Class D water utility serving approximately 85 metered customers in a service area one mile east of Orland, California, in Glenn County. The system is served by one well, a 5,000-gallon hydro pneumatic pressure tank, and an emergency diesel backup engine in case of electrical failure. There are over 1,600 feet of mains of unknown size, and six hydrants. The service area is level, primarily tracts, with typical lots 80' X 150'. About \$38,000 of new plant has been added or replaced other plant in service since 1998.

All customers in BBWC are residential, with no commercial, industrial or public use services. The existing BBWC metered tariff is for 5/8" x 3/4" meters only; five customers have 1" meters but pay the 5/8" x 3/4" service charge. In addition to its tariff for metered service, the company has a monthly flat rate tariff, but no flat rate customers.

### **SYSTEM OWNERSHIP**

BBWC was owned and operated by Charles E. Harris, Sr. and an inactive partner from 1979 to 2009, and was operated solely by Mr. Harris until his illness in April, 2009. His family has been operating the system since then.

Mr. Harris is deceased. His heirs will inherit his share of the company.

### **DISCUSSION**

BBWC was constructed by developers in 1966 to provide water to a tract. It was awarded a Certificate of Public Convenience and Necessity by Decision No. 70863 on June 14, 1966. In 1969 it was sold to a corporation. In 1975 BBWC was granted its first rate increase, a 100% increase, by Res. No. W-1830. Customers were informed by the Commission that the increase would not be sufficient to cover all the water company's costs, but the Commission had nevertheless limited the rate increase to 100%. On October 23, 1979, Decision No. 90932 authorized the sale of the company to John E. Foley and Charles E. Harris, purchasers (not incorporated).

Mr. Harris operated the company by himself since 1979, and never applied for a rate increase. Around 1995, to help defray expenses, he increased the monthly service charge from \$4.80 per month to \$6.00 per month, and the quantity rate from \$0.34 to \$0.38 per hundred cubic feet. These rate changes were implemented without Commission authorization. Since 1995, Mr. Harris has collected about \$42,000 more than authorized by the Commission.

By not applying to the Commission for periodic rate increases, Mr. Harris subsidized the water company for decades. BBWC's Annual Reports for the last several years show expenses only for power, plant maintenance, office supplies, general expense, and occasionally for professional services. The Annual Reports (ARs) do not show new plant in service.<sup>1</sup>

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<sup>1</sup> Amended ARs were filed on October 1, 2008 for 1986 and 2007, showing \$38,000 of new plant added. ARs do not show lengths of mains or sizes of mains.

BBWC's current application adds expenses for office salary, management salary, labor, materials, insurance, taxes, and regulatory commission expense. The expenses were estimated assuming Mr. Harris would continue his one-man operation of the system. This interim increase is granted based on the expenses required for one-person operation. Mr. Harris' family has hired a qualified person to help operate and maintain the system. The company should record expenses for six months and file an advice letter requesting an adjustment to rates suitable for operating BBWC with other personnel.

### **SUMMARY OF EARNINGS**

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

Branch's estimate of revenues at proposed rates is \$503 less than that requested by BBWC. Branch's and BBWC's estimates differ on purchased power and income taxes, and BBWC's requested rate of margin is larger than that recommended by Division of Water and Audits' Utility Audit, Finance and Compliance Branch (UAF&CB) for 2009.

### **REVENUES AT PRESENT RATES**

BBWC estimated revenues of \$19,478 at present rates. Branch concurs.

### **OPERATING EXPENSES**

#### Account 615 - Purchased Power

BBWC's estimated purchased power for 2009 is \$5,530. Based on PG&E's latest rates and BBWC's kilowatt-hour usage, the Branch estimate is \$5,961.

#### Account 409 - Income Taxes

BBWC's estimate is \$200 less than the Branch estimate, although BBWC's taxable revenues are larger. Branch used current State and Federal corporate tax rates.

### **UTILITY CONCURRENCE**

BBWC has reviewed Branch's proposed expenses and deductions, and agrees with them.

### **COMPARISON WITH NEAREST UTILITY**

The nearest water company, the Orland Municipal Water System, charges \$24 per 2-month period, plus \$0.60 per thousand gallons in excess of 15,000. This equates to \$12.00 per month and \$0.45 per Ccf.<sup>2</sup> Since 1995, BBWC's customers have been paying \$6.00 per month and \$0.38 per Ccf.

### **TARIFF SHEETS OUT OF DATE**

BBWC's tariff book is out of date. The following tariff schedules, rules and forms need to be revised or added to the tariff book: Schedule UF, Surcharge to Refund CPUC Reimbursement Fee; Schedule LC, Late Payment Charge; Rule 1, Definitions; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 17, Standards for Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Water; Rule 20, Water Conservation; and Rule 21, Fire Protection; Form 2, Customer's Deposit Receipt; Form 3, Bill for Service; and the Connection Fee Data form.

### **RATE BASE**

The Branch-estimated rate base is \$411 less than that of BBWC. Branch's estimated depreciation reserve is \$411 larger because one more year's depreciation was added. BBWC concurs.

### **FIELD INVESTIGATION**

On November 18, 2008, Branch inspected the BBWC service area, and saw the company's well site, pump, emergency diesel engine, pressure tank, and hydrants.

### **NOTICE TO CUSTOMERS**

A Notice to Customers was circulated to all customers on June 20, 2009. No customers have responded.

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<sup>2</sup> Orland Municipal Water also charges fees for new hookups: a main replacement fee, a capacity fee and a meter cost fee, totaling about \$4,265.

### **CUSTOMER COMPLAINTS**

Mr. Harris said that in the past, some customers have complained about low pressure. He has explained that a larger meter and a larger house line could solve their problems.

### **PUBLIC MEETING**

A public meeting was held on July 15, 2009. One customer attended. The customer had no complaints about service or about the proposed rate increase.

### **RATE DESIGN**

Since 1975, BBWC's metered rate tariff has applied only to 5/8 x 3/4-inch meters. This Resolution adds tariff rates for 3/4-inch, 1-inch, 1-1/2 inch and 2-inch meters. BBWC's flat rate tariff is discontinued because there are no flat rate customers.

### **RATE OF RETURN ON RATE BASE**

BBWC has a rate base of \$23,992. For 2009 A&C recommends a rate of return on rate base of between 12.75% and 13.75% for Class D utilities such as BBWC. This would make BBWC eligible for a return of \$3,059 to \$3,299 per year.

### **RATE OF MARGIN**

UAF&CB recommends a rate of margin of 24% for Class D water companies. The rate of margin is a percentage of the sum of operating expenses plus non-income taxes and depreciation. A 24% rate of margin for BBWC would return \$4,365.

### **RATE OF MARGIN SELECTED**

As required by the Commission in Res. 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 Margin has been selected because it will provide the greater revenue to the utility.

### **COMMENTS**

Customers were notified of a proposed rate increase on June 20, 2009. No comments or protests were received.

**FINDINGS AND CONCLUSIONS**

1. BBWC is a Class D water utility serving approximately 85 metered residential customers in Glenn County, California, about 3 miles west of Orland.
2. BBWC has a flat rate tariff but no flat rate customers.
3. BBWC's last authorized rate increase was in 1975.
4. BBWC increased rates in 1995 without Commission authorization.
5. BBWC has reviewed Water and Sewer Advisory Branch's proposed expenses and deductions, and agrees that they are reasonable.
6. The rate of margin used is based on Division of Water and Audits' Audit, Finance and Compliance Branch's recommendation for Class D water companies.
7. The rate of margin has been selected because it will provide the greater revenue to the utility pursuant to Commission Decision 92-03-093.
8. The rates adopted by this resolution are lower than a municipal water utility in the area.
9. Reasonable expenses were estimated assuming the company would have only one employee.
10. Mr. Harris' family will not be able to operate the water company with only one employee.
11. BBWC should record expenses for other personnel to operate the water system for six months, and may then file another advice letter for revised rates.
12. BBWC's tariff book is outdated and should be brought up to date.
13. No comments or protests were received on the proposed rate increase.
14. Pursuant to Public Utilities Code 311(g) (2), because this is an uncontested matter in which no protests have been received, the comment period on the Draft Resolution may be waived.
15. The Water and Sewer Advisory Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
16. The rates proposed by the Water and Sewer Advisory Branch (Appendix B) are reasonable and should be adopted.
17. 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 Section 454 to Black Butte Water Company to file an 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 Schedules Nos. 1, General Metered Service; and 2R, Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Black Butte Water Company is ordered to add current sheets to the tariff book for: Schedule UF, Surcharge to Refund CPUC Reimbursement Fee; Schedule LC, Late Payment Charge; Rule 1, Definitions; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 17, Standards for Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Water; Rule 20, Water Conservation; and Rule 21, Fire Protection, Form 2, Customer's Deposit Receipt; Form 3, Bill for Service; and the Connection Fee Data form.
3. Black Butte Water Company may file another advice letter for revised rates after recording operating expenses for six months.
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 September 10, 2009; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon  
Executive Director

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
TIMOTHY ALAN SIMON  
Commissioners

**APPENDIX A  
 BLACK BUTTE WATER COMPANY  
 SUMMARY OF EARNINGS  
 TEST YEAR 2009**

	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Unmetered Revenue	0	0	0	0	0
Fire Protection Revenue	0	0	0	0	0
Metered Revenue	19,478	24,542	19,748	24,039	24,039
Other Revenue	0	0	0	0	0
<b>Total Revenue</b>	<b>19,478</b>	<b>24,542</b>	<b>19,748</b>	<b>24,039</b>	<b>24,039</b>
<b>Operating Expenses</b>					
Power	5,530	5,530	5,961	5,961	5,961
Other Volume Related Expenses	0	0	0	0	0
Employee Labor	0	0	0	0	0
Materials	0	0	0	0	0
Contract Work	0	0	0	0	0
Transportation Expense	0	0	0	0	0
Other Plant Maintenance	1,526	1,526	1,526	1,526	1,526
Office Salaries	1,200	1,200	1,200	1,200	1,200
Management Salaries	2,400	2,400	2,400	2,400	2,400
Employee Pensions and Benefits	0	0	0	0	0
Uncollectable Expense	0	0	0	0	0
Office Services and Rentals	240	240	240	240	240
Office Supplies Expense	941	941	941	941	941
Professional Services	118	118	118	118	118
Insurance	1,500	1,500	1,500	1,500	1,500
Regulatory Commission Expense	1,400	1,400	1,400	1,400	1,400
General Expense	1,241	1,241	1,241	1,241	1,241
<b>Total Operating Expenses</b>	<b>16,096</b>	<b>16,096</b>	<b>16,527</b>	<b>16,527</b>	<b>16,527</b>
Depreciation Expense	821	821	821	821	821
Taxes Other Than Income Taxes	840	840	840	840	840
Income Taxes	880	1,286	855	1,486	1,486
<b>Total Deductions</b>	<b>18,637</b>	<b>19,043</b>	<b>19,043</b>	<b>19,674</b>	<b>19,674</b>
<b>Net Income</b>	<b>841</b>	<b>5,499</b>	<b>705</b>	<b>4,365</b>	<b>4,365</b>
<b>Rate Base</b>					
Average Plant	36,643	36,643	36,643	36,643	36,643
Avg. Accumulated Depreciation	(13,061)	(13,061)	(13,472)	(13,472)	(13,472)
Net Plant	23,582	23,582	23,171	23,171	23,171
Add: Materials	0	0	0	0	0
Working Cash	0	0	0	0	0
Less: Contributions	0	0	0	0	0
Advances	0	0	0	0	0
<b>Rate Base</b>	<b>23,582</b>	<b>23,582</b>	<b>23,171</b>	<b>23,171</b>	<b>23,171</b>

**APPENDIX B**

**BLACK BUTTE WATER COMPANY**

**Schedule No. 1  
GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service furnished on a monthly basis.

**TERRITORY**

The area known as Black Butte Estates Subdivision Unit No. 1 and vicinity, located approximately 1-1/2 miles northwesterly of Orland, Glenn County.

**RATES**

Quantity Rate:

All water, per 100 cu. ft.	\$0.48	(I)
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Service Charge:

	Per Meter	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 6.15	(I)
For 3/4-inch meter	\$ 9.23	(N)
For 1-inch meter	\$15.38	(N)
For 1-1/2-inch meter	\$30.75	(N)
For 2-inch meter	\$49.20	(N)

The 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 for water computed at the quantity rate.

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (N)

**APPENDIX C**

**BLACK BUTTE WATER COMPANY**

**COMPARISON OF RATES**

	<u>Previous Rate</u>	<u>New Rate</u>	<u>Percent Increase</u>
Metered Water:			
For 5/8 x 3/4-inch meter	\$6.00	\$ 6.15	2.5%
For 3/4-inch meter	new	\$ 9.23	n/a
For 1-inch meter	new	\$15.38	n/a
For 1-1/2-inch meter	new	\$30.75	n/a
For 2-inch meter	new	\$49.20	n/a
Water, per hundred cu. ft.	\$0.38	\$0.48	26.3%

**APPENDIX D**

**BLACK BUTTE WATER COMPANY**

**ADOPTED QUANTITIES  
Test Year 2009**

Property Tax	\$ 286
Management Salary	\$2,400
Purchased Power (Electric)	
Vendor	Pacific Gas & Electric
Schedule	A-1
Composite Rate	\$0.17402 / kWh
Total Power Consumption in kWh	34,254
Total Purchased Power	\$5,961
Metered Service Connections	
5/8 x 3/4	80
1 inch	<u>5</u>
	85
Metered Water Sales	35,863 ccf
Income Tax Calculations	
Operating Revenue	\$24,039
Operating Expenses	16,527
Depreciation	821
Other Than Income Taxes	840
Income before State Tax	5,851
State Income Tax	800
Income before FIT	5,051
Federal Income Tax	686
Total Income Taxes	1,486