

DWA/RSK/JB5/FLC/MXK/jlj

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

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

**RESOLUTION NO. W-4782  
September 10, 2009**

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

**(RES. W-4782), YERMO WATER COMPANY (Yermo) ORDER  
AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
ADDITIONAL ANNUAL REVENUE OF \$79,125 OR 75.10%  
IN TEST YEAR 2009.**

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**SUMMARY**

On October 6, 2008, Yermo filed a draft advice letter with the California Public Utilities Commission (Commission), Division of Water and Audits (DWA), requesting an increase in its rates for test year 2009. This resolution grants a rate increase in gross annual revenues of \$79,125, or 75.10%, for a total test year 2009 revenue of \$184,480, which is estimated to provide a rate of margin of 24%.

**BACKGROUND**

Yermo is a Class D water utility that by workpapers filed October 6, 2008 requested authority, under General Order 96-B, General Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities (Pub. Util.) Code, to increase its annual water rates by \$200,943 per year, or 191%, for a total of \$306,298, for Test Year 2009. The purpose of the rate increase is to recover increased operating expenses. The filing did not include any request for a rate of return.

Yermo's last General Rate Case (GRC) was approved on November 23, 1993, for test year 1994, per Resolution (Res.) W-3812. Res. W-3812 authorized an increase in total annual revenues of \$76,091 or 137% providing a 13.4% rate of return on rate base.

On May 7, 2009, the Commission issued Decision (D.) 09-05-022 that directed the Commission's Legal Division to "file immediately with the Superior Court of San Bernardino County a petition for appointment of a receiver to assume possession of and operate the water system of the Yermo Water Company." It also ordered two audits, one of Yermo's User Fees and the other of its Purchased Power Balancing Account, established by Res. W-3812.

Yermo is owned by Mr. Donald Walker who gives his business address as 1275 Spring Garden Ranch Road, DeLeon Springs, Florida. Mr. Walker moved the business office of Yermo to Florida in 2002, because the trailer the company was using as a business office in Yermo had been broken into and the computers had been stolen. The trailer has since burned down.

Yermo serves approximately 300 metered customers, located on Tracts 6593 and 6598 in Yermo, in San Bernardino County, just east of Barstow. Most residential customers are full-time residents, with a mixture of retired and working individuals. Yermo has many low income customers, some who have problems paying their existing water bills. The system consists of three active wells (Yermo 1 and 2, and Helbro 4) feeding hydro-pneumatic tanks. Distribution mains are mostly PVC plastic, ranging in size from 2-inch to 4-inch.

Yermo's current rates became effective on March 12, 2009 by Advice Letter 7 which requested an interim GRC increase of 4.1% subject to refund.

DWA issued its staff report on May 22, 2009. Yermo responded by e-mail on July 16, 2009.

## **DISCUSSION**

The DWA in its staff report made an independent analysis of each part of Yermo's test year summary of earnings and annual reports for 2005-2007, as well as the General Ledger for 2007 and one-half of 2008 in order to determine what rates should reasonably be charged to ratepayers.

The Division staff reviewed operating revenues and expenses including purchased water, purchased power, other volume related expenses, employee labor, materials, contract work, transportation expenses, other plant maintenance, office salaries, management salaries, employee benefits, uncollectibles expense, office services and rentals, office supplies and expenses, professional services, insurance, regulatory commission expenses, general expenses, depreciation, and taxes other than income.

Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

Appendix A shows Yermo's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009.

### *Operating Expenses*

There are differences between DWA's forecast and Yermo's requested amounts in the following operating expense categories: Other Volume Related Expense, Management Salary, Water Testing, Uncollectible Expense, Insurance, and Office Services and Rentals. DWA's recommended total operating expenses of \$150,931 was based on a determination of each individual expense category, utilizing historical amounts, applicable inflation factors, and past billed amounts.

Yermo did not request any amount for Other Volume Related Expense. DWA determined that Yermo needed at least \$1,530 for chlorine. In its response Yermo now claims that it uses over a drum a month of chlorine at the cost of \$581 per drum. Consequently, DWA has modified Other Volume Related Expense to include \$6,972 per year for chlorine.

DWA calculated Yermo's Management Salary at \$15,000. In its comments Yermo claimed "An additional \$15,000 will be needed to control everything and the personnel on a 24/7 basis." It also says "[this will]...give this employee approximately \$30,000 per year on the 24/7 Water Company." Yermo books the salary of Marvin Hardy to Management Salary. Mr. Hardy does all of the maintenance and repair of the Yermo system as well as managing the system in the absence of Don Walker (Mr. Walker does not pay himself any Management Salary). Staff has already included \$35,000 per year for Mr. Hardy which is more than Yermo asks for in the language it used to justify the \$15,000 increase. Staff's estimate is proper for this expense.

Yermo requested \$18,665 for water testing. Staff recommended \$0. In its comments Yermo admitted that water testing "costs approximately \$300.00 per month without any bad tests, and you usually have 2 to 3 bad test (sic) per year at which time the test has to be redone and it cost (sic) approximately \$2,000 to \$3,000 a year for testing alone due to an old system." Staff recommends the establishment of a balancing account for water testing to collect the actual testing costs. Staff's position is reasonable. Yermo should be authorized to establish a water testing balance account to collect the actual testing costs.

Yermo did not request any Uncollectibles expense. In its comments to the staff report Yermo states "It has always been very hard for anyone to do the collecting in this town. Because of the policy of all the agencies we have had to deal with when there are children, low income, theft of water, and all the politics as well as the small size of our company, I will state that uncollectibles are at least 20% of our billing that we have had to write off." This would add \$40,975 to the revenue requirement. Uncollectible expense requires other ratepayers to pay for the people who do not pay their bills, or who skip out of rental properties without paying. Yermo needs to solve its uncollectibles problem by enforcing its Tariff Rules, including Tariff Rule 11. B. 1.,

Discontinuance and Restoration of Service, Discontinuance of Service by the Utility for Nonpayment of Bills, not charge other customers for its deficiencies. It needs to disconnect non-paying customers, collect deposits before hooking up new customers and put mechanic liens on properties when property owners don't pay. Staff's estimate of \$0 for uncollectibles is reasonable.

DWA estimated \$8,400 or \$700 per month for Office Services and Rentals which is entirely for office rental. In its response Yermo indicated that it has always taken \$1,200-\$1,500.00 per month in the Yermo-Barstow area to lease or rent a building with some security and equipment for a stand alone business. Yermo has traditionally run its business out of a trailer parked on Yermo property. Unfortunately, Yermo's trailer burned down. Yermo states that "the word on the street is that we turned off a bunch of past due accounts and the same time the fire took place. Luckily, we do have some record in Florida." Since there is a possibility that the actual monthly office rental may exceed the DWA's estimate, Yermo should be authorized to file an offset Tier 3 advice letter to collect the actual costs of Office Service and Rentals after it has established an office in California as required by Section 791 of the Public Utilities Code.

Yermo does not have liability insurance. The staff report recommended that Yermo contract for insurance and request an expense offset for the actual cost of the policy. Yermo states in its response that "...we have applied to three company including state and federal regulated companies and have been denied by all." It is reasonable for Yermo to apply to offset its insurance expense once it has found a company that will write a policy for the water company.

### *Audits*

In D.09-05-022, the Commission ordered an audit of Yermo's User Fees and its Purchased Power Balancing Account. Yermo had not sent the Commission the Users Fees it had collected from the customers from 2003 though 2008. Yermo has now remitted the unpaid Users Fees from 2003 through 2008.

Ordering Paragraph 4 of D.09-05-022 requires the DWA to audit Yermo Water Company's billing procedures to determine whether the purchased power surcharge has been billed and, if so, offset that revenue against Yermo's purchased power costs and require Yermo to record on its accounting records any balance in a purchased power balancing account within 30 days after the effective date of D.09-05-022.

DWA has been frustrated in getting information regarding the purchased power surcharge and trying to help Yermo to properly record on its accounting records the balances in the purchase power balancing account because Yermo has not cooperated in providing purchased power surcharge records and does not seem to understand the

calculations related to balances in the purchased power balancing account and how those balances are recorded. Yermo should be ordered to record and adjust the balances in the purchased power balancing account and report the balance to the DWA within 30 days after the effective date of this resolution.

### *Rate Base*

Yermo estimated a rate base of \$27,662 for 2008. Staff estimates Yermo's rate base as \$8,112. This includes \$3,000 for materials and supplies. Yermo's annual report shows that the company does not know how to calculate rate base. The staff's estimate is correct and should be used.

### *Rate of Return/Rate of Margin*

In D.92-03-093, Ordering Paragraph 8, the Commission stated, "[DWA] is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission that rate method that produces the higher result."

Yermo did not request a return on its rate base.

Pursuant to D.92-03-093, DWA calculated both the rate of margin and the rate of return, to determine which produces a higher result. As ordered in D.92-03-093, DWA must recommend the method that produces the higher revenues. In the rate of margin method, the utility's return or operating margin is defined as the sum of its operating and maintenance expenses, depreciation, and taxes other than income, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has only a small amount of rate base.

DWA calculated the rate of margin by applying the 2008 recommended rate of margin for Class D water utilities of 24% to its estimate of operating expenses and taxes other than income.<sup>1</sup> This results in net revenue of \$33,549. DWA also calculated the return on rate base using the average of the most current 2009 recommended rates-of-return for Class D water utilities of 13.25%, and applied this to DWA's estimated rate base of \$8,112, which results in a return on rate base of \$1,075.

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<sup>1</sup> "Rates of Return and Rate of Margin" memorandum issued annually by DWA, dated February 27, 2009, provides DWA's recommended Rates of Return and Rates of Margin for Class C and D water utilities.

DWA compared its estimated rate of margin and rate of return and found that the rate of margin provides the higher result of the two methods. Therefore, DWA recommends using a rate of margin of 24%, resulting in an estimated net income of \$33,549.

### *Revenue*

DWA estimates Yermo's revenue requirement to be \$184,480, which is based on operating expenses of \$139,202, depreciation expense of \$565, taxes other than income of \$1,100, income taxes of \$10,064, and a rate of margin net revenue of \$33,549.

DWA's recommended revenue of \$184,480 is reasonable because it is calculated utilizing the method normally used by the Commission and provides for the recovery of expenses, taxes, and a reasonable return.

### *Rates*

Yermo did not request specific rates.

DWA estimated a monthly metered rate of \$21.89 per month for the service charge for a 5/8 x 3/4-inch meter and \$1.77 per one hundred cubic feet for the commodity charge. These rates comply with the Commission adopted rate design of 100% of fixed costs in the service charge and 100% of the variable costs in the commodity charge.<sup>2</sup> This is a decrease of 7.6% in the service charge and an increase of 227.8% in the commodity charge.

Because the service charge is going to be less than the present service charge, and because the commodity charge is the minimum necessary to meet the cash flow need of the utility, the rates should not be phased in. When the utility is placed into receivership, the receiver will need the revenues included in these rates, and more (as identified by allowing for offset treatment of water testing and contract labor costs) to provide an adequate and safe supply of water.

DWA's recommended rates are reasonable and sufficient based on the results of operations as discussed above. A comparison of customer bills at present and recommended rates is shown in Appendix C.

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<sup>2</sup> Decision 92-03-093, March 31, 1991, ordering paragraph 6, as memorialized in Standard Practice U-7-W.

## COMPLIANCE

The utility has been deficient in filing annual reports but has since cured the deficiency. It has remitted unpaid User Fees from 2003 through 2008.

According to the California Department of Public Health (CDPH), Yermo has no outstanding water quality problems at present. However, it continues to operate without a Certified Operator as required by the CDPH's rules. The Department has levied a fine of \$43,800 against Yermo. The fine is still outstanding.

On May 7, 2009, the Commission issued D.09-05-022 that directed the Commission's Legal Division to "file immediately with the Superior Court of San Bernardino County a petition for appointment of a receiver to assume possession of and operate the water system of the Yermo Water Company." It also ordered two audits, one of Yermo's User Fees and the other of its Purchased Power Balancing Account, established by Res. W-3812. Ordering Paragraph 4 of D.09-05-022 requires the Division of Water and Audits to audit Yermo Water Company's billing procedures to determine whether the purchased power surcharge has been billed and, if so, offset that revenue against Yermo's purchased power costs and require Yermo to record on its accounting records any balance in a purchased power balancing account within 30 days after the effective date of D.09-05-022. The Division of Water and Audits has been frustrated in getting information regarding the purchased power surcharge and is trying to help Yermo to properly record on its accounting records the balances in the purchase power balancing account. Yermo has not cooperated in providing purchased power surcharge records and does not seem to understand the calculations related to balances in the purchased power balancing account and how those balances are recorded.

Yermo should be ordered to record and adjust any balance in the purchased power balancing account and report the balance to the Division of Water and Audits within 30 days after the effective date this resolution.

Yermo needs to update the following tariff rules and forms: Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Disputes; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; 20, Water Conservation; 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service. Staff will revise these rules and prepare an advice letter for Yermo to file correcting them.

## NOTICE, PROTEST AND PUBLIC MEETING

Customer notices of the proposed rate increase were mailed to each customer on March 16, 2009. Seven letters were received by Staff, objecting to the magnitude of the increase. The concerns raised by these customers include: 1) the increase in rates is more than the customers can afford to pay; 2) the water is undrinkable; 3) the water is unreliable; 4) the rate increase should be phased in; 5) the increase is the same as a tax increase and requires a two-thirds vote of the legislature. Staff has responded to all letters.

On April 14, 2009 at 7:00 pm, Commission Staff held an informal public meeting at the Community Services District's Building in Yermo service area. Approximately 100 customers were present. Both the Division Staff and Yermo's representatives at the meeting made presentations describing Commission procedures related to a rate increase request by Class D water utilities and the reason for Yermo's request for 191% increase in rates. Several customers asked questions and made comments.

The comments from the public were varied. Some complained that the water was not drinkable, that there was no water for the hydrants, or that meters were sometimes duct-taped together. Others mentioned low pressure and air in the water lines. Others attacked Yermo for letting them down in the past with water outages and boil water requirements. Some said the bill didn't match the meter read, and that Yermo's employees in Florida were not available due to going to a chili cook-off.

The discussions of the receivership ranged over what would actually happen, to whether it would be better for the public to have public or private ownership of the water company.

The conclusions to be drawn from the public meeting were that Yermo residents were mainly low income and they could not absorb a tripling of their water bills. Customers on Supplemental Security Income (SSI) are seeing their income decrease due to California's budget problems. Some customers compared the proposed rates with other water companies in the area.

The consensus of the meeting was that any rate increase needed to be phased in. The meeting was adjourned at 9 P.M.

## COMMENTS

Pub. Util. Code Section 311(g) (1) generally provides that resolutions must be served on all parties and subject to at least 30 days public review and comment prior to vote of the Commission. Accordingly, this draft resolution was mailed to parties for comments,

and placed on the Commission's agenda no earlier than 30 days from the date of mailing of this resolution to the parties. No comments were received.

## FINDINGS

1. The Division made an independent analysis of Yermo's operations.
2. Appendix A shows Yermo's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009.
3. The Division staff reviewed operating revenues and expenses including purchased water, purchased power, other volume related expenses, employee labor, materials, contract work, transportation expenses, other plant maintenance, office salaries, management salaries, employee benefits, uncollectibles expense, office services and rentals, office supplies and expenses, professional services, insurance, regulatory commission expenses, general expenses, depreciation, and taxes other than income.
4. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.
5. In its staff report, DWA determined that Yermo needed \$1,530 for Other Volume Related Expense. Yermo responded by claiming that it uses over a drum a month of chlorine at the cost of \$581 per drum. Consequently, DWA has modified Other Volume Related Expense to include \$6,972 per year for chlorine.
6. DWA calculated Yermo's Management Salary at \$15,000. In its comments Yermo requested \$30,000. Staff has already included a total of \$35,000 per year for the person who is paid out of this account. Staff's estimate is proper for this expense.
7. Yermo requested \$18,665 for water testing. Staff recommended \$0. In its comments Yermo said that water testing costs approximately \$300.00 per month without any bad tests, and usually have 2 to 3 bad tests per year at which time the test has to be redone and it costs approximately \$2,000 to \$3,000 a year for testing alone due to an old system.
8. Yermo should be authorized to establish a water testing balance account to collect the actual testing costs.
9. Yermo needs to improve its bill collections procedures significantly before the correct amount of Uncollectibles expense can be estimated. Staff position of \$0 for uncollectibles is fair and reasonable.
10. Yermo should be authorized to file an offset Tier 3 advice letter to collect the actual costs of Office Service and Rentals after it has established an office in California.
11. It is reasonable for Yermo to apply to offset its insurance expense once it has found a company that will write a policy for the water company.

12. The staff's estimate of \$8,112 for rate base, including \$3,000 for materials and supplies is correct and should be used.
13. The Division of Water and Audits recommended summary of earnings (Appendix A) is reasonable and should be adopted.
14. Staff calculated rates in accordance with Commission adopted rate design memorialized in Standard Practice U-7-W. The resulting rates are shown in Appendix B.
15. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
16. Staff has analyzed the historical power consumption, water delivered, and number of service connections in determining the Adopted Quantities in Appendix D.
17. The quantities (Appendix D) used to develop the Division of Water and Audits recommendations are reasonable and should be adopted.
18. D.09-05-022 ordered two audits, one of Yermo's User Fees and the other of its Purchased Power Balancing Account.
19. Yermo should be ordered to respond promptly to the staff auditor, and provide all necessary information.
20. Yermo should be ordered to record and adjust any balance in the purchased power balancing account and report the balance to the Division of Water and Audits within 30 days after the effective date this resolution.
21. Yermo Water Company needs to update the following tariff rules and forms: Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; 20, Water Conservation; 21, Fire Protection; Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Pub. Util. Code Section 454 to Yermo Water Company to file an advice letter incorporating the revised rate schedule attached to this resolution as Appendix B and concurrently cancels its presently effective rate Schedule 1, General Metered Service. The effective date of the revised schedule shall be five days after the date of this filing.
2. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
3. Yermo Water Company is authorized to establish a water testing balancing account to collect the actual testing costs.

4. Yermo Water Company is authorized to file an offset Tier 3 advice letter to modify its rates to collect the actual costs of Office Service and Rentals after it has established an office in California as required by Section 791 of the Public Utilities Code.
5. Yermo Water Company shall respond promptly to any staff auditor and provide all information requested.
6. Yermo Water Company is ordered to record and adjust any balance in the purchased power balancing account and report to the Division of Water and Audits the balance within 30 days after the effective date this resolution.
7. Yermo Water Company shall update the following tariff rules and forms: Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extensions; 16, Service, Meters, and Customer's Facilities; 20, Water Conservation; 21, Fire Protection; Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.
8. 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**  
**Yermo Water Company**

**Summary of Earnings**

Test Year 2009

<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended Rates (ROR)</u>	<u>Recommended Rates (ROM)</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>		
<b><u>Operating Revenue</u></b>						
General Metered Sales	\$ 105,355	\$ 306,298	\$ 105,355	\$ 306,298	\$ 142,932	\$ 184,480
Commercial Water Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Metered Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General Unmetered Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Irrigation Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Unmetered Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Private Fire	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Water Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Revenues</b>	<b>\$ 105,355</b>	<b>\$ 306,298</b>	<b>\$ 105,355</b>	<b>\$ 306,298</b>	<b>\$ 142,932</b>	<b>\$ 184,480</b>
<b><u>Operating Expenses</u></b>						
Purchased Water	\$ -	\$ -	\$ 548	\$ 548	\$ 548	\$ 548
Purchased Power	\$ 25,626	\$ 25,626	\$ 25,626	\$ 25,626	\$ 25,626	\$ 25,626
Other Volume Related Expenses	\$ -	\$ -	\$ 6,972	\$ 6,972	\$ 6,972	\$ 6,972
Employee Labor	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Materials	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Contract Work	\$ 6,085	\$ 6,085	\$ -	\$ -	\$ -	\$ -
Water Testing	\$ 18,665	\$ 18,665	\$ -	\$ -	\$ -	\$ -
Transportation Expenses	\$ 5,332	\$ 5,332	\$ 5,332	\$ 5,332	\$ 5,332	\$ 5,332
Other Plant Maintenance	\$ 90,658	\$ 90,658	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000
Office Salaries	\$ 18,071	\$ 18,071	\$ 18,071	\$ 18,071	\$ 18,071	\$ 18,071
Management Salaries	\$ 48,000	\$ 48,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Employee Benefits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Uncollectibles Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Services & Rentals	\$ 4,800	\$ 4,800	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000
Office Supplies & Expenses	\$ 3,687	\$ 3,687	\$ 5,332	\$ 5,332	\$ 5,332	\$ 5,332
Professional Services	\$ 5,000	\$ 5,000	\$ 500	\$ 500	\$ 500	\$ 500
Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Regulatory Commission Expense	\$ 8,751	\$ 8,751	\$ 521	\$ 521	\$ 521	\$ 521
General Expenses	\$ 13,173	\$ 13,173	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
<b>Subtotal</b>	<b>\$ 272,848</b>	<b>\$ 272,848</b>	<b>\$ 139,202</b>	<b>\$ 139,202</b>	<b>\$ 139,202</b>	<b>\$ 139,202</b>
Depreciation	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565
Taxes other than Income	\$ 32,885	\$ 32,885	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100
Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ 990	\$ 10,064
<b>Total Deductions</b>	<b>\$ 306,298</b>	<b>\$ 306,298</b>	<b>\$ 140,867</b>	<b>\$ 140,867</b>	<b>\$ 141,857</b>	<b>\$ 150,931</b>
<b>Net Revenue</b>	<b>\$ (200,943)</b>	<b>\$ 0</b>	<b>\$ (35,512)</b>	<b>\$ 165,431</b>	<b>\$ 1,075</b>	<b>\$ 33,549</b>
<b><u>Rate Base</u></b>						
Average Plant	\$ 98,890	\$ 98,890	\$ 390,150	\$ 390,150	\$ 390,150	\$ 390,150
Ave. Accumulated Depreciation	\$ 71,268	\$ 71,268	\$ 385,037	\$ 385,037	\$ 385,037	\$ 385,037
<b>Net Plant</b>	<b>\$ 27,622</b>	<b>\$ 27,622</b>	<b>\$ 5,112</b>	<b>\$ 5,112</b>	<b>\$ 5,112</b>	<b>\$ 5,112</b>
<b>Less</b> Advances	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Plus</b> Working Cash	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Materials & Supplies	\$ -	\$ -	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Construction Work in Progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Rate Base:</b>	<b>\$ 27,622</b>	<b>\$ 27,622</b>	<b>\$ 8,112</b>	<b>\$ 8,112</b>	<b>\$ 8,112</b>	<b>\$ 8,112</b>
<b>Rate of Return</b>	<b>-727.47%</b>	<b>0.00%</b>	<b>-437.77%</b>	<b>2039.29%</b>	<b>13.25%</b>	<b>-</b>
<b>Rate of Margin</b>						<b>24%</b>

**APPENDIX B**  
**Yermo Water Company, Inc.**

**Schedule No. 1**

**GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

Tracts Nos. 6593 and 6598 and vicinity near Yermo, San Bernardino County.

**RATES**

Quantity Rates:

All water, per 100 cu. ft	\$ 1.770	(I)
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Service Charge:

For 5/8 X 3/4-inch meters	\$ 21.89	(R)
For 3/4-inch meters	\$ 32.84	
For 1-inch meters	\$ 54.74	
For 1 1/2-inch meters	\$109.47	
For 2-inch meters	\$175.16	
For 3-inch meters	\$328.42	(R)
For 4-inch meters	\$547.36	(N)

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

**SPECIAL CONDITIONS**

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

**APPENDIX C**  
**Yermo Water Company, Inc.**

**Comparison of Rates**  
**Test Year 2009**

	Per Service Connection Per Month		
	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meters	\$ 23.70	\$ 21.89	-7.6%
For 3/4-meters	\$ 35.60	\$ 32.84	-7.8%
For 1-inch meters	\$ 59.30	\$ 54.74	-7.7%
For 1-1/2-inch meters	\$118.60	\$109.47	-7.7%
For 2-inch meters	\$189.70	\$175.16	-7.7%
For 3-inch meters	\$355.73	\$328.42	-7.7%
For 4-inch meters		\$547.36	New
Quantity Charge:			
Per 100 cu. ft.	\$0.540	\$ 1.770	227.8%

**APPENDIX D**  
**Yermo Water Company, Inc.**

**Recommended Quantities**  
**Test Year 2009**

1. Federal Tax Rate: 15% for 1<sup>st</sup> \$50,000 of taxable income
2. State Tax Rate: N/A
3. Service Connections: 294  $\frac{5}{8} \times \frac{3}{4}$  Metered Rate Customers, 1 one-inch meter and two four inch meters.
3. Property Taxes: \$1,100
4. Payroll Taxes: included in payroll costs
5. Contract Work - Water Testing: \$0
6. Water Sales (CCF): 52,356
7. Purchased Power: Southern California Edison  
Schedule No. GS-1, PA-1, PA-2  
Power Consumption unknown

8. Adopted Tax Calculations

	Federal
Operating Revenues	\$184,480
Expenses	139,202
TOTI	1,100
Depreciation	565
State Taxable Income	43,613
State Tax (@8.84% or \$800 min.)	4,143
Federal Taxable Income	39,469
Federal Taxable Income (@15%)	5,920
Federal Taxable Income (@25%)	
Federal Taxable Income (@34%)	
Federal Taxable Income (@39%)	
State Tax	4,143
Federal Tax	5,920
Total Taxes	10,064