

WATER/RSK/FLC/PTL/LEP/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION NO. W-4785  
September 24, 2009

R E S O L U T I O N

**(RES. W-4785), HILLVIEW WATER COMPANY (HILLVIEW).  
ORDER AUTHORIZING A GENERAL RATE INCREASE,  
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$283,286  
OR 24.8% FOR TEST YEAR 2009.**

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**SUMMARY**

By Draft Advice Letter, filed on December 31, 2008, Hillview seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on February 10, 2009.

For Test Year 2009, this resolution grants an increase in gross annual revenues of \$283,286 or 24.8% which is estimated to provide a return on margin of 23%.

**BACKGROUND**

Hillview, a Class C water utility, has requested authority under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$562,832 or 50.94% for test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Hillview's request shows 2009 gross revenues of \$1,104,800 at present rates, increasing to \$1,667,638 at proposed rates. Hillview is requesting a return on margin of 19%.

The present rates were established on December 31, 2008, pursuant to Advice Letter 88, which authorized an interim rate increase. The last general rate case for Hillview was granted on July 21, 2005 pursuant to Decision (D.) 05-07-029 which granted an increase in revenues of \$251,233 or 28.32%.

Hillview serves approximately 1,432 customers in the foothills of eastern Madera County, southwest of Yosemite National Park. Hillview has four separate operating systems: Oakhurst Sierra Lakes System, Hillview-Goldside, Raymond, and Coarsegold

Highlands. The water supply for all of them comes from hard rock wells; much of it has high mineral and metal concentrations.

On August 19, 2002, Hillview entered into a loan agreement with the Department of Health Services now known as the California Department of Public Health (CDPH) and the Department of Water Resources (DWR) to borrow \$3,408,447 under the Safe Drinking Water State Revolving Fund (SDWSRF). The proceeds of the loan were to be used for construction of new wells, new raw water transmission line, new treated water transmission line, upgrade of treatment plants, new storage tank, and other system improvements for the Oakhurst Sierra Lakes System required under the safe drinking standards set by CDPH. The loan agreement required among other things a surcharge to cover the loan debt service and a reserve requirement. The Commission in D.02-11-015 approved the loan.

Hillview is not meeting its Compliance Orders for uranium and arsenic in the Oakhurst Sierra Lakes System and for arsenic and nitrate in the Raymond area and is notifying the customers in both areas on a quarterly basis. There are three major projects needed in two water systems; Hillview has been awarded Letters of Commitment from the State of California for three grants that would completely pay for these projects. The total amount awarded for all three projects is \$8,451,550. Hillview has completed pre-applications under the Economic Recovery Act for all three projects. However, California has currently frozen all state grants and SDWSRF projects because of the budget problems.

### **NOTICE AND PROTEST**

A notice of the proposed rate increase was mailed to each customer on March 10, 2009. The Division and Hillview received two letters protesting the increase.

An informal public meeting was held on Wednesday, April 1, 2009, at the Yosemite High School Cafeteria located in Oakhurst, CA. The meeting started at 6:00 p.m. with about 30 people in attendance. Peter Liu, the Project Manager, declared the meeting open and explained the Commission procedures, as well as the purpose of the meeting. Roger Forrester, President of Hillview, made a presentation to explain the need for the rate increase with Mr. Chris Aldridge of Peasley, Aldinger & O'Bymachow providing assistance. The rest of the meeting consisted of comments and questions by the customers, which the Division staff and Hillview's representatives responded to.

### **DISCUSSION**

The Division made an independent analysis of Hillview's operations. Appendix A shows Hillview's and the Division's estimated summary of earnings at present,

proposed, and recommended rates for test year 2009. Hillview is in agreement with the Division's recommended revenue requirement and the rates shown in Appendix B.

The Division staff reviewed operating revenues and expenses, including purchased power, other volume related expenses, employee labor, materials, contract work, transportation, other plant maintenance, office salaries, management, employee pension and benefits, uncollectible expense, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and taxes other than income taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The Division's general approach for estimating Hillview's operating expenses, excluding purchased power, insurance, taxes other than income, uncollectible and salaries, is based on taking the average of the past three years (2005-2007) and applying the most current monthly escalation factor from the Global Insight U.S. Economic Outlook. The monthly escalation factor for labor and non-labor is provided by the Division of Ratepayer Advocates (DRA) for 2008 through 2013. The Division used the escalation factor published for the month of June 2009 which was estimated at 3.8% labor expenses and -5.3% for non-labor expenses. Hillview's estimates were based on taking the average of the three years (2005 - 2007) recorded expenses and applying a 4.2% inflation factor. Hillview is now in agreement with the Division's escalation factors.

For employee labor, office and management salaries, the Division evaluated Hillview's current salaries by reviewing the pay scale and duties of the field employees, office employees and management, and after determining that the salaries were reasonable, the Division applied the 3.8% DRA's labor escalation rate to the current salaries.

The Division staff audited actual bills for expenses to make its estimates, and where bills were not available relied on the company's annual reports (the company used projections for expenses where actual bills were not available).

Hillview requested a Rate of Margin of 19%. Hillview is a Class C water utility with approximately 1,432 connections. The Division's Utility Audit, Finance & Compliance Branch (UAFCB) recommends a rate of return range from 12% to 13% for a Class C utility. Two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per D.92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the rate of margin

method, the utility's revenue requirements is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, 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 "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. UAFCB has recommended a rate of margin of 23% for Class C water utilities. Division has determined that the Rate of Margin produces the higher revenues of \$1,423,377 compared with the Rate of Return revenues of \$1,371,477 and therefore, Branch recommends the 23% Rate of Margin method.

Hillview's rate structure consists of four schedules: 1, Metered Service; 4, Private Fire Protection Service; 4E, Private Fire Hydrant Services on Private Property; 9M, Measured Services for Trucks; and F, Facilities Fees. The rates proposed by the Division are shown in Appendix B. At the recommended rate of margin the increase in revenue will be \$283,286 or 24.8% for test year 2009.

At the Division's recommended rates shown in Appendix B, a 3/4-inch meter residential customer's bill using 17 Ccf (One Ccf is equal to 100 cubic feet) will increase from \$61.23 to \$76.43, a 24.8% increase. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

### COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. However, Hillview needs to update its tariff Rules 3, Application for Service, and 10, Disputed Bills.

### COMMENTS

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this draft Resolution was mailed to the utility and protestants and made available for public comment on August 25, 2009. No comments were received.

### FINDINGS

1. Hillview filed for a general rate increase based on taking the average of the three years (2005-2007) recorded expenses and applying a 4.2% inflation factor.

2. The Division used the different factors of 3.8% and -5.3% for labor and non-labor expenses; and Hillview now agrees with the Division's inflation factors.
3. The Division used annual reports for expenses, when actual bills were not available.
4. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
5. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
6. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
7. Hillview should be required to update its tariff Rules 3, Application for Service, and 10, Disputed Bills.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Hillview 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 Schedule 1, Metered Service, Schedule 4, Private Fire Protection Service, Schedule 4E Private Fire Hydrant Services on Private Property, Schedule 9M, Measured Services for Trucks, and Schedule F, Facilities Fees. The effective date of the revised schedule shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
3. Hillview Water Company is ordered to update the following rules in its tariff book: Rules 3, Application for Service, and 10, Disputed Bills.
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 24, 2009; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon  
Executive Director

MICHAEL R. PEEVEY  
President

Resolution W-4785  
HILLVIEW/DRAFT AL/RSK/FLC/PTL/LEP/jlj

September 24, 2009

DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
TIMOTHY ALAN SIMON  
Commissioners

**APPENDIX A**  
**HILLVIEW WATER COMPANY**  
**SUMMARY OF EARNINGS**  
**Test Year 2009**

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<b><u>Operating Revenues</u></b>					
Water Sales	\$1,104,800	\$1,667,638	\$1,140,091	\$1,655,188	\$1,423,377
<b><u>Operating Expenses:</u></b>					
Purchased power	174,233	174,233	174,233	174,233	174,233
Other volume related	113,266	113,266	22,024	22,024	22,024
Employee labor	172,887	172,887	133,792	133,792	133,792
Materials	56,709	56,709	56,709	56,709	56,709
Contract work	64,113	64,113	62,669	62,669	62,669
Transportation	63,725	664,725	46,073	46,073	46,073
Other plant maintenance	37,417	37,417	13,332	13,332	13,332
Office salaries	84,807	84,807	68,646	68,646	68,646
Management	171,818	171,818	168,730	168,730	168,730
Employee pension & benefit	50,614	50,614	50,614	50,614	50,614
Uncollectible expense	773	773	773	773	773
Office services & rentals	17,187	17,187	14,520	14,520	14,520
Office supplies & expenses	73,110	73,110	73,110	73,110	73,110
Professional services	51,225	51,225	27,392	27,392	27,392
Insurance	36,820	36,820	40,887	40,887	40,887
Regulatory expense	22,170	22,170	13,186	13,186	13,186
General expenses	2,792	2,792	2,792	2,792	2,792
Expenses capitalized	(29,217)	(29,217)	(29,217)	(29,217)	(29,217)
Total operating expenses	1,164,449	1,164,449	940,265	940,265	940,265
Depreciation expense	66,869	66,869	66,869	66,869	66,869
Taxes other than income	94,657	94,657	90,379	90,379	90,379
State taxes	800	19,913	800	36,273	18,516
Federal income taxes	-	69,817	0	127,180	57,717
Total deductions	1,326,773	1,415,706	1,098,313	1,273,289	1,173,746
<b>Net Revenue</b>	<b>(221,975)</b>	<b>251,932</b>	<b>41,779</b>	<b>381,899</b>	<b>249,632</b>
<b>Rate Base</b>					
Average Plant	5,678,432	5,678,432	5,678,432	5,678,432	5,678,432
Aver. Acc. Dep.	2,622,008	2,622,008	2,622,008	2,622,008	2,622,008
Net Plant	3,056,424	3,056,424	3,056,424	3,056,424	3,056,424
Less: Advances	150,959	150,959	150,959	150,959	150,959
Contributions	1,490,221	1,490,221	1,490,221	1,490,221	1,490,221
Deferred income taxes	246,690	246,690	246,690	246,690	246,690
Deferred invest tax cr.	6,891	6,891	6,891	6,891	6,891
Plus: Materials & supplies	61,590	61,590	61,590	61,590	61,590
Working Cash	97,037	97,037	78,355	78,355	78,355
Rate Base	1,320,290	1,320,290	1,301,608	1,301,608	1,301,608
Rate of Return	(16.8)%	19.1%	3.2%	29.3%	19.2%
Rate of Margin					23%

(END OF APPENDIX A)

**APPENDIX B  
HILLVIEW WATER COMPANY**

**Schedule No. 1  
GENERAL METERED SERVICE  
Test Year 2009**

**APPLICABILITY**

Applicable to all metered water service.

**LIMITATIONS**

Hillview may add up to a maximum of one-hundred services to its Oakhurst Sierra Lakes System without further CDPH approval. Thereafter, Hillview must seek CDPH approval for further additions. Except, however, service may be provided to a person or entity that develops and contributes additional source and storage adequate to supply the additional demand that the person or entity proposed to add in the Oakhurst Sierra Lake Service Are. The additional source and storage must be developed in a location specified by Hillview and must be constructed to meet standards acceptable to Hillview and CDPH.

**TERRITORY**

Coarsegold Highland, Raymond, and subdivision in and near Oakhurst, Madera County.

**RATES**

Quantity Rate:

All water used, per 100 cu. ft. \$ 2.943 (I)

Service Charge		Per Meter	
		<u>Per Month</u>	
For	3/4-inch meter	\$ 26.40	(I)
For	1-inch meter	44.00	
For	1-1/2-inch meter	88.00	
For	2-inch meter	140.00	
For	3-inch meter	264.00	
For	4-inch meter	440.00	
For	6-inch meter	880.00	(I)

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

(continued)

**APPENDIX B-1  
HILLVIEW WATER COMPANY**

**Schedule No. 4  
PRIVATE FIRE PROTECTION SERVICE  
Test Year 2009**

**APPLICABILITY**

Applicable to all water service furnished to privately owned fire-protection systems.

**TERRITORY**

Oakhurst Sierra Lakes System, Goldside-Hillview Estates, Coarsegold Highlands, Raymond and vicinity Madera County.

**RATE**

	<u>Rate</u> <u>Per Month</u>	<u>Surcharge</u> <u>Per Month</u>
For each inch of diameter of service connection	\$4.80 (I)	\$0.25

**SPECIAL CONDITIONS**

1. The fire protection service connection shall be installed by the utility or under the utility's direction. Cost for the entire fire protection installation including the connection at the main shall be paid by the applicant. Such payment shall not be subject to refund.
2. The surcharge is specifically for the payment of the loan authorized by Resolution F832-dated November 22, 1994, to finance plant improvements.
3. The expense of maintaining the private fire protection facilities on the applicant's premises (including the vault, meter and backflow device) shall be paid for by the applicant.
4. All facilities from the riser for the backflow device on, including the backflow device shall be the sole property of the applicant. The utility and its duly authorized agent shall have the right to ingress to, and egress from, the premises for all purposes relating to said facilities.
5. The minimum diameter for fire protection service shall be four inches and the maximum diameter shall not be more than the diameter of the main to which the service is connected.
6. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be required.
7. The fire hydrant shall be used for fire fighting purposes and fire drills only. Any authorized use will be charged for at the regular established rates for general metered service and may be grounds for the utility to discontinue the fire hydrant service without liability to the utility.
8. The utility will supply only such water at such pressures as may be available from time to time as the results of its normal operation in the system.
9. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**APPENDIX B-2  
HILLVIEW WATER COMPANY**

**Schedule No. 4E  
PRIVATE FIRE PROTECTION SERVICE  
Test Year 2009**

**APPLICABILITY**

Applicable to all fire hydrant services rendered from fire hydrants located on private property that are connected to company owned mains.

**TERRITORY**

Royal Oaks Estates, Sunnydale, Goldside Estates, Hillview Estates, Sierra Lakes Tracts and vicinity Madera County.

**RATE**

	<u>Rate</u>	<u>Surcharge</u>
	<u>Per Month</u>	<u>Per Month</u>
4" Riser type fire hydrant with single 2-1/2 outlet	\$ 8.38 (I)	\$0.50
6" Standard type fire hydrant	14.75 (I)	\$0.87

**SPECIAL CONDITIONS**

1. The fire hydrant will be installed by the utility or by a construction agency acceptable to it at the cost of the applicant. The cost will not be subject to refund.
2. The surcharge is specifically for the payment of the loan authorized by Resolution F-832 dated November 22, 1994, to finance plant improvements.
3. The relocation, replacement, or enlargement of any hydrant shall be at the expense of the party asking such request.
4. The utility or its authorized agents shall have at all reasonable times the right of ingress to and egress from the customer's premises for any purpose connected with private fire hydrant service.
5. The utility or its authorized agents shall have at all reasonable times the right of ingress to, and egress from the customer's premises for any purpose connected with private fire hydrant service.
6. The customer shall indemnify the utility and save it harmless against any and all claims rising out of service under this schedule and shall further agree to make no claims against the will for any loss or damage resulting from service hereunder.
7. The fire hydrant shall be used for fire fighting purposes and fire drills only. Any authorized use will be charged for at the regular established rates for general metered service and may be grounds for the utility to discontinue the fire hydrant service without liability to the utility.
8. The utility will supply only such water at such pressures as may be available from time to time as the results of its normal operation in the system.
9. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**APPENDIX B-3  
HILLVIEW WATER COMPANY**

**Schedule No. 9M  
PUBLIC FIRE PROTECTION SERVICE  
Test Year 2009**

**APPLICABILITY**

Applicable to all tank truck water sales.

**TERRITORY**

Coarsegold, Raymond, and Subdivisions in and near Oakhurst, Madera County.

**RATE**

**Surcharge**

Per 100 cu. ft.

\$3.60 (I) \$0.25

**SPECIAL CONDITIONS**

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

**APPENDIX B-4  
HILLVIEW WATER COMPANY**

**Schedule F  
FACILITIES FEES  
Test Year 2009**

**APPLICABILITY**

Applicable to any customers applying for service in the Utility's territory served for premises not previously connected to the distribution mains, for additional service connections to existing premises, and for increases in size of connections to existing premises.

**TERRITORY**

This schedule is applicable within the entire territory served by the Utility.

**RATES**

**Initial fee for each service connection:**

For 5/8 x 3/4 inch meter	\$ 2,600	(I)
For 3/4-inch meter	3,900	
For 1-inch meter	6,500	
For 1-1/2-inch meter	13,500	
For 2-inch meter	20,800	
For 3-inch meter	39,000	
For 4-inch meter	65,000	
For 6-inch meter	130,000	(I)

**SPECIAL CONDITIONS**

1. A facility fee is payable in addition to and does not limit any charge for extensions of main that may be applicable under Rule 15, Main Extensions.
2. Any payment made under this schedule is not subject to reimbursement set forth in Schedule UF.

**(END OF APPENDIX B)**

**APPENDIX C  
HILLVIEW WATER COMPANY**

**COMPARISON OF RATES  
GENERAL METERED SERVICE  
Test Year 2009**

<u>METERED SERVICE</u>	<u>Per Meter Per Month</u>		
	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
Service Charge:			
For 3/4-inch meter	\$ 21.11	\$ 26.40	25.1%
For 1-inch meter	35.19	44.00	25.0%
For 1-1/2-inch meter	70.36	88.00	25.1%
For 2-inch meter	112.58	140.80	25.1%
For 3-inch meter	211.10	264.00	25.1%
For 4-inch meter	351.84	440.00	25.1%
For 6-inch meter	703.67	880.00	25.1%
Quantity Rate:			
All water, per 100 cu.ft	\$ 2.36	\$ 2.943	24.7%
Private Fire Protection Service:			
For each inch of diameter of service connection	\$ 2.36	\$ 2.943	24.7%
Private Fire Hydrant Services on Private Property 4-inch Riser type hydrant with single 2-1/2 outlet			
	\$ 3.84	\$ 4.80	25.0%
Measured Services for Trucks:			
Per 100 cu. ft.	\$ 2.88	\$ 3.60	25.0%

Comparison of a monthly typical bill for residential customers with a 3/4-inch is shown below at current rates and recommended rates for test year 2009.

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Increase</u> <u>Amount</u>	<u>Increase</u> <u>Percent</u>
5	\$32.91	\$41.12	\$ 8.21	24.9%
10	\$44.71	\$55.83	\$11.12	24.9%
17 Avg.	\$61.23	\$76.43	\$15.20	24.8%
25	\$80.11	\$99.98	\$19.87	24.8%

**(END OF APPENDIX C)**

**APPENDIX D**  
**HILLVIEW WATER COMPANY**  
**ADOPTED QUANTITIES**

**Test Year 2009**

1. Purchased Power	\$ 174,233
2. kWh	1,040,000
3. Uncollectibles	\$ 773
4. Property Tax	\$ 61,169

Service Connections

Metered Rate	
3/4-inch	1,295
1-inch	65
1-1/2-inch	34
2-inch	34
3-inch	4
4-inch	0
6-inch	<u>0</u>
Total Metered	1,432
Private Fire Services	44
Private Fire Hydrants	102
Metered Water Sales	285,398 Ccf

**INCOME TAX CALCULATIONS**  
Test Year 2009

Line <u>No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenues	\$1,423,377	\$1,423,377
2.	Operating Expenses	\$ 940,265	\$ 940,265
3.	Depreciation	\$ 66,869	\$ 66,869
4.	Taxes Other than Income	\$ 90,379	\$ 90,379
5.	Interest	\$ 116,408	\$ 116,408
6.	State Taxable Income	\$ 209,456	\$ 209,456
7.	State Tax (@8.84%)	\$ 18,516	\$ 18,516
		=====	=====
5.	Federal Taxable Income		\$ 190,940
6.	Federal Income Tax		\$ 57,717
7.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 76,233

**(END OF APPENDIX D)**