

WATER/RSK/PTL/LEP/jlj

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION NO. W-4796  
October 29, 2009

R E S O L U T I O N

**(RES. W-4796), WARRING WATER SERVICE, INC. (WARRING)  
ORDER AUTHORIZING A GENERAL RATE INCREASE,  
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$52,756 OR  
11.8% FOR TEST YEAR 2009.**

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**SUMMARY**

By Draft Advice Letter, filed on April 6, 2009, Warring 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 April 20, 2009.

For Test Year 2009, this resolution grants an increase in gross annual revenues of \$52,756 or 11.8% which is estimated to provide a rate of return of 13.75%.

**BACKGROUND**

Warring, a Class D 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 \$110,200 or 24.6% for test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Warring's request shows 2009 gross revenues of \$448,041 at present rates, increasing to \$558,241 at proposed rates. Warring is requesting a rate of return of 13.75%.

The present rates were established on August 1, 2008, pursuant to Advice Letter 43-W, which authorized a Consumer Price Index offset rate increase of \$10,140 or 2.5%. The last general rate case for Warring was granted on June 30, 2005 pursuant to Res. W-4536 which granted an increase in revenues of \$77,570 or 24.5%.

Mr. Gary Pace took over the system in 1991 as authorized in Decision (D.) 91-12-006, dated December 4, 1991. Mr. Gary Pace has passed away and his son Glen Pace has taken over as President and Chief Operating Officer.

Warring serves approximately 473 meter residential customers and 3 irrigation customers in the unincorporated community of Piru and vicinity, Ventura County. Most customers are full time residents, with a mixture of retired and working individuals. The system consists of the following: three wells, one 1.1MG storage tank, five chemical pumps, three storage tanks, approximately 65,000 feet of pipe ranging from 2" to 12" and 38 fire hydrants.

### **NOTICE AND PROTEST**

A notice of the proposed rate increase was mailed to each customer on April 24, 2009. The Division and Warring received three letters protesting the increase.

An informal public meeting was held on Wednesday May 20, 2009 at 6:30pm at the Piru Community Center located in Piru, CA. Four people attended the meeting. Peter Liu, the Project Manager, declared the meeting open and explained the Commission procedures, as well as the purpose of the meeting. Frank Brommenschenkel, a consultant for Warring, made a presentation to explain the need for the rate increase; Mr. Glen Pace was also there to answer customers' questions. The rest of the meeting consisted of questions and comments by the customers, which either Mr. Liu or Warring's representatives responded to.

### **DISCUSSION**

The Division made an independent analysis of Warring's operations. Appendix A shows Warring's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009. Warring is in agreement with the Division's recommended requirement and the rates shown in Appendix B.

The Division staff reviewed operating revenues and expenses, including purchased power, other volume related, 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 Warring'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 (2006-2008) 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 August 2009 which was estimated at 3.8% labor expenses and -5.3% for non-labor expenses. Warring is now in agreement with the Division's escalation factors.

For employee labor, office and management salaries, the Division evaluated Warring'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 DRA's labor escalation rate to the adopted salaries in the last general rate case.

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).

Warring requested a Rate of Return of 13.75%. Warring is a Class D water utility with approximately 476 connections. The Division's Utility Audit, Finance & Compliance Branch (UAFCB) recommends a rate of return range from 12.75% to 13.75% 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 Decision 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. The Rate of Margin 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 24% for Class D water utilities. Division has determined that the Rate of Return produces the higher revenues of \$500,800 compared with the Rate of Margin revenues of \$493,791 and therefore, Branch recommends the 13.75% Rate of Return method.

Warring's rate structure consists of three schedules: 1, General Metered Service; 3, Irrigation Service; and 4, Private Fire Protection Service. The rates proposed by the Division are shown in Appendix B. At the recommended rate of margin the increase in revenue will be \$52,756 or 11.8% for test year 2009.

At the Division's recommended rates shown in Appendix B, a 5/8x 3/4 inch meter residential customer's bill using 18 Ccf (One Ccf is equal to 100 cubic feet) will increase from \$41.19 to \$46.16 a 12.0% 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, Warring needs to update its Schedule UF, Surcharge to Fund PUC Reimbursement Fee, and Form 3, Bill for Service.

In Res.W-4573 dated November 18, 2005, the Commission at Warring's request reclassified the \$160,000 as a personal loan executed by the then owner of Warring Mr. Gary Pace. Warring was ordered to re-classify the \$160,000 debt as contributed capital, and to reflect such change in the next annual report. Warring did not reclassify the \$160,000 as a contribution and needs to do so in the 2009 annual report.

## 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 September 29, 2009. No comment was received.

## FINDINGS

1. Warring filed for a general rate increase based on 2008 recorded expenses and applying a 2% inflation factor.
2. The Division used the different rates of 3.8% and -5.3% for labor and non-labor expenses; and Warring now agrees with the Division's inflation rates.
3. The Division used annual reports for expenses, when actual bills were not available.
4. Except as described in the preceding findings, we find the company's estimates to be reasonable.
5. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
6. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
7. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
8. Warring should be required to update its Schedule UF, Surcharge to Fund PUC Reimbursement Fee; and Form No. 3, Bill for service.

9. Warring did not reclassify the \$160,000 personal loan as contributed capital as ordered in Res. W-4573 dated November 18, 2005 and should do so in the 2009 annual report.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Warring 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 1, General Metered Service, 3, Irrigation Service, and 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
3. Warring Water Company shall update the following rules in its tariff book: Schedule UF, Surcharge to Fund PUC Reimbursement Fee; and Form 3, Bill for Service.
4. Warring Water Company shall correct its plant account in the 2009 current annual report to include the \$160,000 as contributed capital.
5. 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 October 29, 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**  
**WARRING WATER COMPANY**  
**SUMMARY OF EARNINGS**  
**Test Year 2009**

	Utility Estimated		Division Estimated		Division Recommended Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<b><u>Operating Revenues</u></b>					
Water Sales	\$448,041	\$558,241	\$448,044	\$558,135	\$500,800
<b><u>Operating Expenses:</u></b>					
Purchased power	47,400	47,400	46,018	46,018	46,018
Other volume related	30,894	30,894	29,048	29,048	29,048
Employee labor	64,720	64,720	64,720	64,720	64,720
Materials	5,072	5,072	5,072	5,072	5,072
Contract work	36,437	36,437	36,437	36,437	36,437
Transportation	17,291	17,291	17,291	17,291	17,291
Other plant maintenance	4,082	4,082	4,082	4,082	4,082
Office salaries	21,583	21,583	14,000	14,000	14,000
Management	18,360	18,360	14,000	14,000	14,000
Employee pension & benefit	37,175	37,175	29,263	29,263	29,263
Uncollectible expense	690	690	690	690	690
Office services & rentals	18,687	18,687	18,687	18,687	18,687
Office supplies & expenses	3,092	3,092	3,092	3,092	3,092
Professional services	5,000	5,000	5,000	5,000	5,000
Insurance	9,501	9,501	9,501	9,501	9,501
Regulatory expense	2,000	2,000	2,000	2,000	2,000
General expenses	2,750	2,750	2,750	2,750	2,750
Total operating expenses	324,734	324,734	301,651	301,651	301,651
Depreciation expense	29,701	29,701	29,062	29,062	29,062
Taxes other than income	29,972	29,972	28,444	28,444	28,444
State taxes	5,625	15,367	6,450	16,182	11,114
Federal income taxes	8,701	45,052	11,629	48,331	27,948
Total deductions	398,734	444,826	377,236	423,671	398,219
<b>Net Revenue</b>	49,307	113,415	70,808	134,464	102,582
<b>Rate Base</b>					
Average Plant	1,916,727	1,916,727	1,745,572	1,745,572	1,745,572
Aver. Acc. Dep.	536,988	536,988	449,786	449,786	449,786
Net Plant	1,379,739	1,379,739	1,295,786	1,295,786	1,295,786
Less: Advances	-	-	-	-	-
Contributions	424,882	424,882	575,792	575,792	575,792
Plus: Materials & supplies	735	735	735	735	735
Working Cash	27,061	27,061	25,138	25,138	25,138
Rate Base	982,653	982,653	745,867	745,867	745,867
Rate of Return	5.0%	11.5%	9.5%	18.0%	13.75%

(END OF APPENDIX A)

**APPENDIX B**  
**WARRING WATER COMPANY**

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

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

Piru and vicinity, Ventura County.

**RATES**

Quantity Rate:			
All water Used, per 100 cu.ft.	\$ 1.331		(I)
Service Charge		<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 22.20		(I)
For 3/4-inch meter	33.30		
For 1-inch meter	55.50		
For 1-1/2-inch meter	111.00		
For 2-inch meter	177.68		
For 3-inch meter	333.00		
For 4-inch meter	555.00		
For 6-inch meter	1,111.00		(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 used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit, at the company's option, be furnished on the account of the landlord or property owner.

**APPENDIX B-1**  
**WARRING WATER COMPANY**

**Schedule No. 3**  
**IRRIGATION SERVICE**  
Test Year 2009

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

Piru and vicinity, Ventura County.

**RATES**

Quantity Rate:

All water used, per 100 cu.ft.	\$ 0.570	(I)
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Service Charge	Per Meter	
	<u>Per Month</u>	

For 2-inch meter	\$ 99.20	(I)
For 3-inch meter	194.50	
For 4-inch meter	325.58	
For 6-inch meter	651.05	(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 used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth in Schedule UF.
2. A late charge will be imposed per Schedule No. LC.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit, at the company's option, be furnished on the account of the landlord or property owner.

**APPENDIX B-2  
WARRING WATER COMPANY**

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

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

Piru and vicinity, Ventura County.

**RATE**

Per Service  
Per Month

For each inch in diameter of service connection      \$    8.00      (I)

**SPECIAL CONDITIONS**

1. The applicant will pay without refund the entire cost of service connection installation. All installations will be in accordance with the Utility's plans and specifications and will be maintained to the satisfaction of the utility.
2. 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 service is connected.
3. 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 the adequate capacity shall be installed by the Utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. The customer's installation must be such as to separate effectively the fire sprinkler system from that of the customer's regular water service. The Utility may require the installation of a standard detector check or other similar device acceptable to the Utility, which will indicate theft, leakage or waste of water and the cost shall be paid without refund by the applicant. Any authorized use of this water will be charged for at the regular established rate for general metered service, and/or may be grounds for the Utility's discontinuing the fire sprinkler service without liability to the Utility.
5. There shall be no cross-connection between the fire sprinkler system supplied by the water through the Utility's fire sprinkler service to any other source of supply without the specific approval of the utility. This specific approval will require, at the customers expense, a special double check valve installation or other device acceptable to the Utility. Any unauthorized cross-connection may be the grounds for immediately discontinuing the sprinkler system without liability to the utility.
6. 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.
7. All Bills are subject to the reimbursement fee set forth in Schedule No.UF.

**(END OF APPENDIX B)**

**APPENDIX C  
WARRING WATER COMPANY  
COMPARISON OF RATES  
Test Year 2009**

COMPARISON OF RATES:  
METERED SERVICE

	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/8x3/4-inch meter	\$ 19.79	\$ 22.20	12.2%
For 3/4-inch meter	29.69	33.30	12.2%
For 1-inch meter	49.69	55.50	11.7%
For 1-1/2-inch meter	99.19	111.00	11.9%
For 2-inch meter	158.70	177.60	11.9%
For 3-inch meter	297.52	333.00	11.9%
For 4-inch meter	495.93	555.00	11.9%
For 6-inch meter	991.77	1,111.00	12.0%
Quantity Rate:			
All water, per 100 cu.ft.	\$ 1.189	\$ 1.331	12.0%

IRRIGATION SERVICE:

Service Charge:			
For 2-inch meter	\$ 88.56	\$ 99.45	12.3%
For 3-inch meter	173.20	194.50	12.3%
For 4-inch meter	289.92	325.58	12.3%
For 6-inch meter	579.74	651.05	12.3%
Quantity Rate:			
All water used, per 100 cu.ft.	\$ 0.514	\$ 0.570	10.9%

Private Fire Protection Service:

Rate:			
For each inch of diameter of service connection	\$ 7.12	\$ 8.00	12.3%

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>Present</u>	<u>Recommended</u>	<u>Increase</u>	<u>Increase</u>
<u>100 cu.ft.</u>	<u>Bills</u>	<u>Bills</u>	<u>Amount</u>	<u>Percent</u>
10	\$31.68	\$35.51	\$ 3.83	12.1%
18Avg.	\$41.19	\$46.16	\$ 4.97	12.1%
25	\$49.52	\$55.48	\$ 5.96	12.0%
30	\$55.46	\$62.13	\$ 6.67	12.0%

(END OF APPENDIX C)

**APPENDIX D  
WARRING WATER COMPANY  
ADOPTED QUANTITIES  
Test Year 2009**

1. Purchased Power	\$ 46,018
2. kWh	372,236
3. Uncollectibles	\$ 690
4. Property Tax	\$ 12,120

Service Connections

Metered Rate	
5/8x3/4-inch	427
3/4-inch	2
1-inch	14
1-1/2-inch	13
2-inch	13
3-inch	2
4-inch	1
6-inch	<u>1</u>
Total Metered	473
Private Fire Services	2
Irrigation Service	
4-inch	3
Metered Water Sales	159,000 Ccf
Irrigation Sales	129,000 Ccf

**INCOME TAX CALCULATIONS  
Test Year 2009**

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenues	\$ 500,800	\$ 500,800
2.	Operating Expenses	\$ 301,651	\$ 301,651
3.	Depreciation	\$ 29,701	\$ 29,701
4.	Taxes Other Than Income	\$ 28,444	\$ 28,444
5.	Interest	\$ 15,920	\$ 15,920
6.	State Taxable Income	\$ 125,724	\$ 125,724
7.	State Tax (@8.84%)	\$ 11,114	\$ 11,114
8.	Federal Taxable Income	=====	\$ 114,610
9.	Federal Income Tax		\$ 27,948 =====

(END OF APPENDIX D)