

WATER/RSK/JB5/AJT/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4828
April 8, 2010

R E S O L U T I O N

**(RES. W-4828), CENTRAL WATER SYSTEM (CWS). ORDER
AUTHORIZING A GENERAL RATE INCREASE (GRC),
PRODUCING AN INCREASE OF \$7,972 OR 51.5% IN TEST YEAR
(TY) 2010.**

SUMMARY

By Draft Advice Letter filed on October 29, 2009, CWS 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 November 16, 2009.

This resolution grants an increase of \$7,972 or 51.5%, for TY 2010 revenue of \$23,460 with a resulting rate of margin of 13.5%.

CWS has 42 single-family residential customers, all with a 5/8-inch flat-rate service connection. The present rates will increase from \$32.00 per month to \$46.55 per month, yielding a monthly increase of \$14.55 or 45.5%.

BACKGROUND

CWS, 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 \$7,972 or 51.5% in TY 2010. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. CWS' request shows 2008 gross revenues of \$15,488 at present rates, increasing to \$23,460 at proposed rates. CWS is requesting a rate of margin of 13.5%.

The present rates were established on March 16, 2004 by the last general rate increase which was granted pursuant to Res. W-4461, which authorized a rate increase of \$2,015, or 14.3%, resulting in a rate of return on rate base of 12.61%.

CWS serves approximately 42 residential flat rate customers in the community of Strathmore about eight miles northwest of Porterville, Tulare County.

The Division made an independent analysis of CWS' operating expenses, taxes, depreciation, and rate base. Appendix A shows CWS' and the Division's estimates of the summary of earnings at present, requested, and recommended rates for 2010.

NOTICE AND PROTEST

A notice of the proposed rate increase was hand-delivered to each customer on or about November 24, 2009. Twenty-eight customers (two-thirds of the customers) filed protests in response to the notice. The protests raised concerns about the affordability of increasing rates to \$46.55 per month which are nearly twice what nearby residences pay for water. A number of the protests raised concerns about inadequate water pressure and that there is no notice when water is going to be unavailable on the system.

An informal public meeting was held Thursday, February 4, 2010, at the Porterville Library located at 41 West Thurman Avenue, in Porterville, CA. The meeting started at 5:35 PM with six customers in attendance. The Division representative, Adam Thaler, explained Commission procedures, as well as the purpose of the meeting. Then Veronica and Angel Gonzalez, representatives of CWS, made a presentation to explain the need for the rate increase. The rest of the meeting consisted of comments and questions by the customers. Most of the questions and comments were general in nature and dealt with CWS' revenues and expenses, and requested increase. The meeting adjourned at 7:00 PM.

DISCUSSION

The Division made an independent analysis of CWS' operations. Appendix A shows CWS' and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2010.

In Decision (D.) 92-03-093 effective April 30, 1992, the Commission adopted the Return on Margin (ROM) ratemaking as an alternate to the Return on Net Investment (Rate Base) method for Class C and Class D Utilities and recommended that the Division use the method that produces the higher result.

CWS has virtually no ratebase and requested a ROM of 13.5%, well below the recommended ROM of 24% for a Class D Utility. CWS desires to be sensitive to its ratepayers in this case as this is a low-income community. The owner and his daughter

are actively running this water system and have not had a salary since acquiring the utility. The salaries requested are minimal and only recorded expenses, with no escalation for 2010, are being requested.

CWS' current rate structure consists of standard flat rate service. The rates proposed by the Division are shown in Appendix B.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8-inch customer would increase from \$32.00 to \$46.55, which is \$14.55, or 45.5% in TY 2010. 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.

EXPENSES

CWS desires to be sensitive to the ratepayers in the community and has not requested any escalation or increase in expenses over what was adopted in the previous GRC in 2004.

Office and Management Salaries

The owner and his daughter have been actively running this water facility since it was acquired and have not requested any salary in its previous filings. Office and Management salaries are requested to be increased as follows:

| | <u>Present</u> | <u>Proposed</u> |
|---------------------|----------------|-----------------|
| Office Salaries | \$0 | \$2,500 |
| Management Salaries | \$0 | \$5,070 |

Office Salaries

Veronica Gonzalez assists with the correspondence, filing, and assists Angel Gonzalez in operating the water system. CWS estimates that Ms. Gonzalez works a minimum of a six-hour work week on water company related activities for the 2010 test year. An hourly estimated rate of \$8 (minimum wage) was requested by CWS.

CWS requests \$2,500 for Office Salaries for Test Year 2010.

Management Salaries

Mr. Angel Gonzalez actively manages and operates the water system. Mr. Gonzalez performs most of the repairs and maintenance requirements. An hourly estimated rate of \$15 per hour was requested by CWS. CWS estimates that Mr. Gonzalez will spend approximately 10 hours per week on utility related activities for TY 2010. CWS adjusted the number of hours per week in its request downward to 6.5 hours per week to ease the effect on rates.

CWS requests \$5,070 for Management Salaries for TY 2010.

The salaries requested above are reasonable and should be adopted.

RATEBASE AND PLANT INVESTMENT

CWS did not request any new ratebase or plant investment in this advice letter.

COMPLIANCE

CWS has no outstanding compliance orders. Though utility has been filing annual reports as required, these reports are deficient in a number of aspects. The Division should assign an auditor to work with CWS to bring its annual reports into compliance.

No complaints due to water service or rates have been filed with the Commission's Consumer Affairs Branch. During the rate case evaluation process, CWS was responsive to queries made by the Division.

COMMENTS

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

The 30-day comment period for the draft resolution was neither waived nor reduced. Accordingly, the draft resolution was provided to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from the date of mailing the resolution to the parties. No comments were received.

FINDINGS AND CONCLUSIONS

1. The Division of Water and Audits made an independent analysis of Central Water System's operations.

2. Appendix A shows Central Water System's and the Division of Water and Audits' estimated summary of earnings at present, proposed, and recommended rates for test year 2010.
3. The Division of Water and Audits staff reviewed operating revenues and expenses.
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. The recorded amounts for Accounts 670 and 671, Office Salaries and Management Salaries, respectively, are \$0 (zero dollars) at present rates.
6. Central Water System requests to establish Office Salaries and Management Salaries of \$2,500 and \$5,070, respectively.
7. The request to establish a total of \$7,570 for combined Office and Management Salaries is reasonable and should be adopted.
8. Central Water System has 42 unmetered (flat-rate) customers.
9. The Division of Water and Audits recommended summary of earnings (Appendix A) is reasonable and should be adopted.
10. Central Water System did not request any new ratebase or plant investment in this proceeding.
11. Central Water System proposed a Rate of Margin of 13.5%.
12. The Division of Water and Audits' recommendation of a 13.5% rate of margin is reasonable and should be adopted.
13. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
14. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are reasonable and should be adopted.
15. Central Water System's draft advice letter request was protested by 28 customers.
16. The draft resolution grants the relief requested by Central Water System.

17. Pursuant to Public Utilities Code Section 311(g) (1), the draft resolution was sent for public comment.
18. The annual reports for Central Water System are deficient. The Division of Water and Audits should assign an auditor to work with the Company to bring the annual reports into compliance.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Central Water System to file a Tier 1 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 Schedule 1, General Metered Service, and Schedule 2, Flat Rate Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 8, 2010; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

TIMOTHY ALAN SIMON

NANCY E. RYAN

Commissioners

Appendix A
 Central Water System

Summary of Earnings

Test Year 2010

| <u>Item</u> | <u>Utility Estimated</u> | | <u>Branch Estimated</u> | | <u>Recommended Rates</u> |
|----------------------------------|--------------------------|------------------------|-------------------------|------------------------|--------------------------|
| | <u>Present Rates</u> | <u>Requested Rates</u> | <u>Present Rates</u> | <u>Requested Rates</u> | |
| <u>Operating Revenue</u> | | | | | |
| General Metered Revenue | \$0 | \$0 | \$0 | \$0 | \$0 |
| General Unmetered Revenue | \$15,488 | \$23,460 | \$15,488 | \$23,460 | \$23,460 |
| Reclaimed Water Sales | \$0 | \$0 | \$0 | \$0 | \$0 |
| Private Fire | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Water Revenue | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Unmetered Revenue | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Revenue: | \$15,488 | \$23,460 | \$15,488 | \$23,460 | \$23,460 |
| <u>Operating Expenses</u> | | | | | |
| Purchased Water | \$0 | \$0 | \$0 | \$0 | \$0 |
| Purchased Power | \$2,974 | \$2,974 | \$2,974 | \$2,974 | \$2,974 |
| Other Volume Related Expenses | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ground Water Assessment | \$0 | \$0 | \$0 | \$0 | \$0 |
| Employee Labor | \$0 | \$0 | \$0 | \$0 | \$0 |
| Materials | \$1,223 | \$1,223 | \$1,223 | \$1,223 | \$1,223 |
| Contract Work | \$207 | \$207 | \$207 | \$207 | \$207 |
| Water Testing | \$1,972 | \$1,972 | \$1,972 | \$1,972 | \$1,972 |
| Transportation Expenses | \$1,503 | \$1,503 | \$1,503 | \$1,503 | \$1,503 |
| Other Plant Maintenance | \$839 | \$839 | \$839 | \$839 | \$839 |
| Office Salaries | \$0 | \$2,500 | \$0 | \$2,500 | \$2,500 |
| Management Salaries | \$0 | \$5,070 | \$0 | \$5,070 | \$5,070 |
| Employee Benefits | \$0 | \$0 | \$0 | \$0 | \$0 |
| Uncollectibles Expense | \$0 | \$0 | \$0 | \$0 | \$0 |
| Office Services & Rentals | \$0 | \$0 | \$0 | \$0 | \$0 |
| Office Supplies & Expenses | \$306 | \$306 | \$306 | \$306 | \$306 |
| Professional Services | \$484 | \$484 | \$484 | \$484 | \$484 |
| Insurance | \$218 | \$218 | \$218 | \$218 | \$218 |
| Regulatory Commission Expense | \$100 | \$100 | \$100 | \$100 | \$100 |
| General Expenses | \$883 | \$883 | \$883 | \$883 | \$883 |
| Subtotal | \$10,710 | \$18,280 | \$10,710 | \$18,280 | \$18,280 |
| Depreciation | \$877 | \$877 | \$877 | \$877 | \$877 |
| Taxes other than Income | \$458 | \$458 | \$458 | \$458 | \$458 |
| Income Taxes | \$800 | \$1,257 | \$800 | \$1,257 | \$1,257 |
| Interest | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Deductions | \$12,845 | \$20,872 | \$12,845 | \$20,872 | \$20,872 |
| Net Revenue | \$2,643 | \$2,588 | \$2,643 | \$2,588 | \$2,588 |
| Rate Base: | \$23,338 | \$23,338 | \$23,338 | \$23,338 | \$23,338 |
| Rate of Return | 11.33% | 11.09% | 11.33% | 11.09% | 11.09% |
| Rate of Margin | 22.81% | 13.51% | 22.81% | 13.51% | 13.51% |

APPENDIX B-1

Central Water System

Schedule No. 1

GENERAL METERED SERVICE

Test Year 2010

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 247, and vicinity, adjacent to Cairns Road approximately four miles west of the community of Strathmore, Tulare County.

RATES

Quantity Rates:

| | <u>Per Meter</u> | |
|-------------------------------------|------------------|-----|
| | <u>Per Month</u> | |
| All water used per 100 cu. ft | \$ 1.58 | (I) |

Service Charge:

| | | |
|--------------------------------|----------|-----|
| For 5/8 x 3/4-inch meter | \$ 22.89 | (I) |
| For 3/4-inch meter | \$ 34.34 | |
| For 1-inch meter | \$ 57.23 | |
| For 1-1/2-inch meter | \$114.46 | |
| For 2-inch meter | \$183.12 | (I) |

SPECIAL CONDITIONS

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

APPENDIX B-2

Central Water System

Schedule No. 2

FLAT RATE SERVICE

Test Year 2010

APPLICABILITY

Applicable to all water service furnished on flat rate basis.

TERRITORY

Tract No. 247, and vicinity, adjacent to Cairns Road approximately four miles west of the community of Strathmore, Tulare County.

RATES

| | Per-Service Connection | |
|--|------------------------|-----|
| | <u>Per Month</u> | |
| For each single-family residence | \$46.55 | (I) |

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one-inch diameter.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. Meters may be installed at the option of the utility in which event service thereafter will be rendered only on the basis of Schedule No. 1, General Metered Service.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX C

Central Water System

COMPARISON OF RATES

Test Year 2010

A comparison of the present and Branch's recommended rates is shown below:

Monthly bill for a flat rate customer:

| <u>Present</u> <u>Rates</u> | <u>Recommended</u> <u>Rates</u> | <u>Amount</u> | <u>Percent Increase</u> |
|--------------------------------|------------------------------------|---------------|-------------------------|
| \$32.00 | 46.55 | \$14.55 | 45.5% |

APPENDIX D

Central Water System

ADOPTED QUANTITIES

Test Year 2010

| | |
|-----------------------|----------------|
| 1. Purchased Power | |
| Total Cost | \$2,974 |
| 2. Water Sales in CCF | Not Applicable |
| 3. Payroll | |
| Employee Labor | \$ 0 |
| Office Salaries | \$2,500 |
| Management Salaries | \$5,070 |

Service Connections - Flat Rate Service

| | |
|--------|----|
| 5/8 " | 42 |
| 3/4" | 0 |
| 1" | 0 |
| 1-1/2" | 0 |
| 2" | 0 |
| 3" | 0 |
| Total: | 42 |

Adopted Tax Calculation Test Year 2010

| | |
|---------------------------------|----------|
| 1. Operating Revenues | \$23,460 |
| 2. Expenses | \$18,280 |
| 3. Taxes other than income | \$ 458 |
| 4. Depreciation | \$ 877 |
| 5. Taxable Income for State Tax | \$ 3,845 |
| 6. State Tax (min 800) | \$ 800 |
| 7. Taxable Income for FIT | \$ 3,045 |
| 8. Federal Tax | \$ 457 |