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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION NO. W-4839  
August 12, 2010

R E S O L U T I O N

**(RES. W-4839), LIVE OAK SPRINGS WATER COMPANY (LIVE OAK SPRINGS) ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC), PRODUCING ADDITIONAL ANNUAL REVENUES OF \$22,393 OR 30.70% FOR TEST YEAR 2010.**

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**SUMMARY**

By Advice Letter (AL) 23-W filed March 11, 2010, Live Oak Springs seeks to increase its rates for water service to recover operating expenses and earn an adequate return on its plant investment.

For Test Year 2010, this Resolution grants an increase in gross revenues of \$22,393 or 30.70% which is estimated to provide a rate of return of 10.08%.

**BACKGROUND**

Live Oak Springs, a Class D water utility, is requesting authority under Rule 7.6.2 of General Order 96-B and Water Industry Rule 7.3.3 (5), and Section 454 of the Public Utilities Code to increase its rates by \$31,900 or 50.30%. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Live Oak Springs request shows 2010 gross revenues of \$63,383 at present rates increasing to \$95,283 at the proposed rates.

The present rates became effective on May 17, 2010, with the approval of AL 25-W, which authorized an interim rate increase of \$9,507 or 15% subject to refund or increase to the rates established in this GRC. The last general rate increase became effective on November 30, 2006, pursuant to Res. W-4615, which granted an increase in revenues of \$46,400 or 320%.

Live Oak Springs currently provides service to approximately 97 metered customers in the unincorporated community of Live Oak Springs, a service area located near the City of Boulevard, San Diego County. Live Oak Springs is owned and run by Mr. Nazor Najor who took over the company from his father in 1982.

The original plant has been in place since the 1940's. The pipe system is over 70 years old and is deteriorating and in some cases runs fairly close to the roadway surface and has major leaks in several sections of it. Live Oak Springs obtains its water supply from two wells. The two operational wells are named Well No. 2 and Well No. 5. The reason the numbers are out of sequence is that the numbering includes old, abandoned wells. For instance, Well No. 3 was recently abandoned due to a high concentration of nitrates. Well No. 2 has a depth of 220 feet and a capacity of 55 gallons per minute. Well No. 5 is used primarily as a back-up and also has a capacity of 55 gallons per minute. Live Oaks Springs is sufficient to meet its customers' demand and is in compliance with the provisions of General Order 103.

### **NOTICE, PROTESTS, AND PUBLIC MEETING**

A notice of the proposed rate increase was mailed to each customer on December 12, 2009. Nine letters questioning the rate increase were received.

An informal public meeting was held on Monday, January 11, 2010, at The Live Oak Springs Restaurant located in the city of Live Oak Springs. The meeting was attended by approximately eighteen customers. The Division of Water and Audits (Division) staff explained to the participants the Commission rate-setting procedures, while Live Oak Springs' representatives cited justifications for the proposed rate increase. Staff and Live Oak Springs responded to various questions from the attendees. Some of the concerns most frequently brought up by customers were the system's dilapidated infrastructure, water quality and the reasons for the rate increase. These concerns, along with others, were also discussed and addressed by Live Oak Springs representatives. The meeting was adjourned at 7:25 pm.

### **DISCUSSION**

The Division staff made an independent analysis of Live Oak Springs' operations. Appendix A shows Live Oak Springs and the Division's estimated summary of earnings at present, proposed, and recommended rates for Test Year 2010. Live Oak Springs is in agreement with the Division's recommended revenue requirement and the rates shown in Appendix B.

The Division staff reviewed Live Oak Springs operating revenues and expenses including purchased power, materials, contract work, water testing, other plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, general expenses, depreciation, and taxes other than income. Staff verified the operating expenses by reviewing annual reports and supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonably necessary.

Staff audited actual bills for expenses to make its estimates, and also used different inflation rates than Live Oak Springs, who used projections across all expenses when recorded information did not apply. Based on the Division of Ratepayer Advocates memorandum of January 31, 2010, the Division uses a non-labor inflation rate of 2.8% and a labor inflation rate of 0.3% for the appropriate operating expense, which Live Oak Springs agrees with.

Live Oak Springs, at 97 service connections for TY 2010, is a Class D water utility for rate-making purposes. The Division's Utility Audit, Finance and Compliance Branch (UAFCB) currently recommends a Rate of Margin of 23.03% and a Rate of Return from 12.50% to 13.50% for a Class D, 100% equity financed utility. The two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin.

Per Decision 02-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. Nevertheless, in order to reduce the impact of rate shock on its customers Live Oak Springs has requested a revenue increase of \$22,393 which will yield an annual revenue of \$95,283 from its present revenue of \$72,890. This revenue increase yields a rate of return of 10.08%, which is lower than the allowable rate of return of 12.50%.

Live Oak Springs' current rate structure consists of one schedule: No. 1, Metered Service. The rates proposed by the Division are shown in Appendix B. At the recommended rate of return, the increase in revenue will be \$22,393 or 30.70% for test year 2010. In compliance with the water conservation goals of the state, Live Oak Springs has meters for all its customers.

At the Division's recommended rates, the monthly bill for a 5/8" metered customer using 7 Ccf (reflects the average consumption for a Live Oak Springs customer) would increase from \$52.97 to \$79.55, which is \$26.58, or 50.2%. A comparison of customer bills for present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

### **COMPLIANCE**

Live Oak Springs has no outstanding compliance orders. The utility has been filing annual reports as required. As of February 2, 2010, the County of San Diego, Department of Environmental Health (DEH) findings were that the system infrastructure is in dire need of replacement and suggests a written time line be implemented with specific infrastructure upgrades. Upgrades necessary are replacement of distribution mains and laterals, storage tank upgrades and a booster pump for homes at the higher elevations. Any infrastructure replacement must meet

the California Code of Regulations; Waterworks Standards and the American Water Works Association (AWWA) or be National Sanitation Foundation (NSF) ANSI 61 approved. The DEH also requested that it be notified before work is started to assure work is done in a sanitary manner and under the guidance of a Certified Water System Operator.

The Division also recommends that Live Oak Springs update its Schedule No. UF.

### **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.

The draft resolution was served on the utility and all those who submitted letters to the Division questioning the rate increase for public comment on July 13, 2010. Comments were received from one rate payer, and reply comments addressing the concerns raised by the rate payers were received from the water utility on August 4, 2010. The comments expressed concerns that monies from the rate increase would not be properly utilized to address and replace dilapidated infrastructure and leaks in the system. Also, that timelines be put in place and some enforcement is used to ensure that these improvements and replacements are carried out. After an in-depth review of the comments, the Division found there to be no justification for disallowing the rate increase, since only reasonable and just expenses were allowed in the rates.

### **FINDINGS**

1. Live Oak Springs is an entity under Live Oak Holding LLC and run by Mr. Nazor Najor.
2. The original plant has been in place since the 1940's.
3. The distribution system is over 70 years old, deteriorating and in some cases runs fairly close to the roadway surface and has major leaks in several sections of it.
4. The County of San Diego, Department of Environmental Health finds that the system infrastructure is in dire need of replacement and suggests a written time line be implemented with specific infrastructure upgrades.
5. The present rates became effective on May 17, 2010, with the approval of Advice Letter 25-W, which authorized an interim rate increase of \$9,507 or 15% subject to refund or increase to the rates established in this GRC.
6. Comments on the draft resolution were received from one rate payer on July 30, 2010.

7. Replies to the rate payer's comments were received from Live Oak Springs on August 4, 2010.
8. The Division reviewed the comments and found there to be no need for delays or grounds for disallowing the Division's recommended rates, as only reasonable and just expenses have been allowed in the rates.
9. For TY 2010, it is appropriate to grant Live Oak Springs an increase in gross revenues of \$22,393 or 30.70%, which is estimated to provide a rate of return of 10.08%.
10. Live Oak Springs is in agreement with the Division of Water and Audits' (Division) recommended rates.
11. The Division's recommended earnings (Appendix A) are reasonable and should be adopted.
12. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
13. The quantities (Appendix D) used to develop Division's recommendations are reasonable and should be adopted.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Live Oak Springs 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 cancels its presently effective Schedule No. 1, Metered Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Live Oak Springs Water Company is authorized to file a Tier 1 advice letter within 60 days from the effective date of this Resolution to collect over a twelve-month period the under-collected revenues from the interim rate date to the effective date of this Resolution.

3. 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 August 12, 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  
 LIVE OAK SPRINGS WATER COMPANY**

**Summary of Earnings  
 Test Year 2010**

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Interim Rates	Requested Rates	
<b>Operating Revenue</b>					
General Metered Sales	\$ 63,383	\$ 95,283	\$ 72,890	\$ 95,283	\$ 95,283
Reclaimed Water Sales	\$ -	\$ -		\$ -	\$ -
Private Fire	\$ -	\$ -		\$ -	\$ -
	\$ 63,383	\$ 95,283	\$ 72,890	\$ 95,283	\$ 95,283
<b>Operating Expenses</b>					
610 Purchased Water	\$0	\$0	\$ -	\$ -	\$ -
615 Purchased Power	\$3,400	\$3,400	\$ 3,400	\$ 3,400	\$ 3,400
618 Other Volume Related Expenses	\$4,393	\$4,393	\$ 4,516	\$ 4,516	\$ 4,516
Ground Water Assessment	\$0	\$0	\$ -	\$ -	\$ -
630 Employee Labor	\$92	\$92	\$ 92	\$ 92	\$ 92
640 Materials	\$400	\$400	\$ 400	\$ 400	\$ 400
650 Contract Work	\$5,807	\$5,807	\$ 5,807	\$ 5,807	\$ 5,807
Water Testing	\$4,393	\$4,393	\$ 4,393	\$ 4,393	\$ 4,393
660 Transportation Expenses	\$975	\$975	\$ 1,003	\$ 1,003	\$ 1,003
664 Other Plant Maintenance	\$3,737	\$3,737	\$ 3,841	\$ 3,841	\$ 3,841
670 Office Salaries	\$3,697	\$3,697	\$ 3,697	\$ 3,697	\$ 3,697
671 Management Salaries	\$13,871	\$13,871	\$ 13,871	\$ 13,871	\$ 13,871
674 Employee Benefits	\$0	\$0	\$ -	\$ -	\$ -
676 Uncollectibles Expense	\$183	\$183	\$ 333	\$ 333	\$ 333
678 Office Services & Rentals	\$4,984	\$4,984	\$ 5,123	\$ 5,123	\$ 5,123
681 Office Supplies & Expenses	\$924	\$924	\$ 950	\$ 950	\$ 950
682 Professional Services	\$3,200	\$3,200	\$ 3,200	\$ 3,200	\$ 3,200
684 Insurance	\$1,495	\$1,495	\$ 1,495	\$ 1,495	\$ 1,495
688 Regulatory Commission Expense	\$1,237	\$1,237	\$ 1,272	\$ 1,272	\$ 1,272
689 General Expenses	\$1,324	\$1,324	\$ 1,361	\$ 1,361	\$ 1,361
<b>Subtotal</b>	\$ 54,112	\$ 54,112	\$ 54,754	\$ 54,754	\$ 54,754
Depreciation	\$ 7,995	\$ 7,995	\$ 8,145	\$ 8,145	\$ 8,145
Taxes other than Income	\$ 3,119	\$ 3,119	\$ 3,119	\$ 3,119	\$ 3,119
Income Taxes	\$ 800	\$ 5,853	\$ 800	\$ 5,675	\$ 5,675
Interest Expense	\$4,059	\$4,059	\$ 4,059	\$ 4,059	\$ 4,059
<b>Total Deductions</b>	\$70,085	\$75,138	\$70,877	\$75,752	\$75,752
<b>Net Revenue</b>	-\$6,702	\$20,145	\$2,013	\$19,531	\$19,531
<b>Rate Base</b>					
Average Plant	\$ 266,514	\$ 266,514	\$ 276,528	\$ 276,528	\$ 276,528
Ave. Accumulated Depreciation	\$ 94,167	\$ 94,167	\$ 91,456	\$ 91,456	\$ 91,456
<b>Net Plant</b>	\$ 172,347	\$ 172,347	\$ 185,072	\$ 185,072	\$ 185,072
Less Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Plus Working Cash	\$ 7,464	\$ 7,464	\$ 7,464	\$ 7,464	\$ 7,464
Materials & Supplies	\$ 1,276	\$ 1,276	\$ 1,276	\$ 1,276	\$ 1,276
<b>Rate Base:</b>	\$ 181,087	\$ 181,087	\$ 193,812	\$ 193,812	\$ 193,812
<b>Rate of Return</b>	-3.70%	11.12%	1.04%	10.08%	10.08%

**APPENDIX B**

**Live Oak Springs Water Company**

**Schedule No. 1**

**METERED SERVICE**

**Test Year 2010**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The unincorporated community of Live Oak Springs and Vicinity, San Diego County.

**RATES**

Quantity Rates:

First 300 cu. ft., per 100 cu. ft...	\$ 3.33	(I)
Over 300 cu. ft., per 100 cu. ft...	\$ 4.19	(I)

Service Charge:

	Per Meter	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 52.80	(I)
For 3/4-inch meter	\$ 79.20	(I)
For 1-inch meter	\$132.00	(I)
For 1-1/2-inch meter	\$264.00	(I)
For 2-inch meter	\$422.40	(I)

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

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth in Schedule UF.

APPENDIX C

Live Oak Springs Water Company

Monthly Comparison of Rates

	Per Service Connection Per Month		
	<u>Interim</u>	<u>Recommended</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meters	\$ 34.81	\$ 52.80	51.7%
For 3/4-inch meters	\$ 52.22	\$ 79.20	51.7%
For 1-inch meters	\$ 87.03	\$132.00	51.7%
For 1-1/2-inch meters	\$174.05	\$264.00	51.7%
For 2-inch meters	\$278.48	\$422.40	51.7%
Quantity Charge:			
First 300 cu. ft., per 100 cu. ft.	\$2.280	\$3.330	46.1%
Over 300 cu. ft., per 100 cu. ft.	\$2.830	\$4.190	48.1%

A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

<u>Usage</u>	<u>Interim</u>	<u>Recommended</u>	<u>Amount</u>	<u>Percent</u>
<u>100 cu. ft.</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
0	\$34.81	\$ 52.80	\$17.99	51.7%
3	\$41.65	\$ 62.79	\$21.14	50.8%
5	\$47.31	\$ 71.17	\$23.86	50.4%
7	\$52.97	\$ 79.55	\$26.58	50.2%
10	\$61.46	\$ 92.12	\$30.66	49.9%
15	\$75.61	\$113.07	\$37.46	49.5%

**APPENDIX D**

**Live Oak Springs Water Company**

**ADOPTED QUANTITIES**

**Test Year 2010**

1. Purchased Power	
Total Cost	\$ 3,400
2. Water Sales in Ccf	8,185
3. Payroll	
Office Salaries	\$ 3,697
Management Salaries	\$13,871
4. Property Taxes	\$ 1,386

**Metered Rate Service Connections**

Service Connections - Meter Size

5/8 x 3/4"	95
3/4"	1
1"	1
1-1/2"	
2"	
Total Metered	<u>97</u>

**Adopted Tax Calculation Test Year 2010**

1. Operating Revenues	\$95,283
2. Expenses	\$54,754
3. Depreciation	\$ 8,145
4. Property Taxes	\$ 1,386
5. Payroll Tax	\$ 1,733
6. Taxable Income for State Tax	\$25,206
7. State Tax (min 800)	\$ 2,228
8. Taxable Income for FIT	\$22,978
9. Federal Tax	\$ 3,447