

WATER/RSK/PTL/LEP/ijj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4849
November 19, 2010

R E S O L U T I O N

**(RES. W-4849), TAHOE CEDARS WATER COMPANY, INC. (TCW)
ORDER AUTHORIZING A GENERAL RATE INCREASE,
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$150,437 OR
41.7% FOR TEST YEAR (TY) 2010.**

SUMMARY

By Advice Letter (AL) 42, filed on May 26, 2010, TCW seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment.

For Test Year 2010, this resolution grants an increase in gross annual revenues of \$150,437 or 41.7% which is estimated to provide a rate of return of 12.2%.

BACKGROUND

TCW, a Class C water utility, has requested 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 water rates by \$270,292 or 77% for test year 2010. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. TCW's request shows 2010 gross revenues of \$351,195 at present rates, increasing to \$621,667 at proposed rates. TCW is requesting a rate of return of 12.5%.

The present rates became effective on January 1, 2010, by approval of AL 41, which authorized an interim rate increase of \$6,322 or 1.8% %, subject to refund or increase of the rates established in this GRC. The last general rate case for TCW was granted on January 7, 1994, pursuant to Res. W-3821, which granted an increase in revenues of \$40,746 or 24.0% for TY 1993.

TCW currently provides water service to approximately 1,140 residential flat rate (some seasonal but mostly year around) and 24 metered commercial customers in Tahoe Cedar and adjacent areas located near the community of Tahoma, in El Dorado and Placer Counties.

TCW is owned by Mid Sierra Water Utility, Incorporated (Mid Sierra). Mid Sierra also owns Madden Creek Water Company, a Class D water utility. The two utilities share the same administrative office, office equipment and billing expenses, office salaries, and office utilities. Each utility files for rates separately and each has a proportional share of costs.

TCW has one main well that pumps up to 600 gallons per minute. The utility also has a well that was placed on standby due to arsenic contamination and can be used only five days per year. TCW plans on installing another well as soon as funds are available. TCW has two storage tanks with a combined capacity of 439,000 gallons. Both tanks have been thoroughly reconditioned.

NOTICE AND PROTEST

On April 2, 2010, a notice of the proposed rate increase was mailed to each TCW customer and to the service list. Twenty four letters questioning the rate increase were received. The utility has responded to all protests. The Division of Water and Audits (Division) reviewed the protests to the rate increase and reduced the utility's expense estimates.

An informal public meeting was held on Wednesday April 21, 2010, at the Fire House located on 7164 - 7th Avenue, Tahoma, CA. The meeting was attended by approximately 20 customers. The Staff explained to the participants the Commission rate-setting procedures, while TCW representatives cited justifications for the proposed rate increase. Staff and TCW responded to various questions from the attendees.

DISCUSSION

The Division made an independent analysis of TCW's operations. Appendix A shows TCW and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2010. TCW is in agreement with the Division's recommended requirement and the rates shown in Appendix B.

The Staff reviewed TCW's 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 reasonably necessary.

TCW filed for a general rate increase based on taking the average of the three-year period (2006-2008) recorded expenses and applying a 2.5% escalation factor for 2009 and 2010.

Staff audited actual bills for expenses to make its estimates, and also used different inflation rates than TCW. Staff used annual reports for expenses, when actual bills were not available. The Division used a non-labor inflation rate of -3.6% for 2009 and 4.2% for 2010 for the operating expenses, except for employee pension and benefits, regulatory expense, and general expense, as the Division of Ratepayer Advocates (DRA) recommended in a memorandum dated January 31, 2010. The Commission has adopted DRA's inflation rates for Water and Sewer Utilities' GRCs. TCW agrees with applying these inflation rates to make these estimates.

Employee Pension and Benefits

TCW requested employee pension & benefits of \$40,757 which included \$16,915 for a Self Employee Pension Plan (SEP). The Division reduced the SEP estimate to lessen the rate impact on the customers and recommends \$30,000.

Regulatory Expense

TCW requested \$6,700 by amortizing the total estimates over three years. TCW's last GRC was granted on January 7, 1994, for TY 1993. In order to lessen the rate impact on the ratepayers, the Division's estimate of \$4,320 was based on the five year average plus \$1,200 for annual AL filings.

General Expense

TCW's estimate of \$10,124 includes Department of Public Health (DPH) fees. The Division disallowed the DPH fee as it is an offsetable expense and used the average of 2006 and 2008 and applied a non-labor factor of 4.2% and recommends \$2,512.

Average Plant and Average Accumulated Depreciation

The Division's estimate of average plant is \$1,299,267 and \$541,012 for accumulated depreciation. The Division has disallowed TCW's proposal of \$558,900 (for a new well, a new utility truck, a new excavator, a new trailer, a new dump truck, and replacement of main line, fire hydrants, and meters) because none of the funds have been expended for the items above. TCW may apply for a ratebase offset when the above improvements are used and useful.

Rate of Margin

TCW requested a Rate of Return of 12.5%. TCW is a Class C water utility with approximately 1,158 connections. The Division's Utility Audit, Finance & Compliance Branch (UAFCB) recommends a rate of return range from 11.75% to 12.75% 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. Per Decision 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. UAFCB has recommended a rate of margin of 21.7% for Class C water utilities. Division has determined that the rate of return of 12.2% produces the higher revenues of \$511,404 compared with a 21.7% rate of margin revenue of \$494,906. Therefore, the Division recommends the rate of return method.

TCW's rate structure consists of two schedules: Schedule No. 1, Annual General Metered Service and Schedule No. 2SR, Seasonal Residential Flat Rate Service. The rates proposed by the Division are shown in Appendix B. At the recommended rate of return the increase in revenue will be \$150,437 or 41.7% for TY 2010.

At the Division's recommended rates shown in Appendix B, the bill for a typical flat rate residential customer would increase from \$289.48 per year to \$413.96 or 43% increase. 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

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. However, TCW needs to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules in its tariff book to meet with the current Commission sample forms: Title Page; Rules: 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 20, Fire Protection; and 21, Water Conservation; and Forms: 2, Customer's Deposit Receipt; and 3, Bill for Service.

COMMENTS

Public Utilities Code Section 311(g) (1) generally requires that resolutions must be served on all parties and be subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, the draft resolution was mailed to all parties for comment on September 28, 2010. No comments were received.

FINDINGS

1. Tahoe Cedars Water Company currently serves approximately 1,140 residential flat rate (some seasonal but mostly year around) and 24 metered commercial customers in Tahoe Cedar and adjacent areas located near the community of Tahoma, in El Dorado and Placer Counties.

2. Tahoe Cedars Water Company has requested authority to increase its rates by \$270,292 or 70% for Test Year 2010.
3. Tahoe Cedars Water Company's present rates became effective on January 1, 2010, by approval of Advice Letter 41, which authorized an interim rate increase of \$6,322 or 1.8%, subject to refund or increase of the rates established in this GRC.
4. A notice regarding the general rate increase was mailed to each customer and to the service list on April 2, 2010.
5. Twenty four letters questioning the rate increase were received.
6. The last general rate increase was granted on January 7, 1994, pursuant to Res. No. W-3821, which granted an increase in revenues of \$40,746 or 24% for Test Year 1993.
7. Tahoe Cedars Water Company filed for a general rate increase based on taking the average of the three year period (2006-2008) recorded expenses and applying a 2.5% inflation factor for 2009 and 2010.
8. The Division of Water and Audits used a -3.6% non-labor escalation factor for 2009 and 4.2% for 2010 escalation factor for non-labor as provided by the Division of Ratepayer Advocates. Tahoe Cedars Water Company now agrees with the Division's inflation rates.
9. The Division of Water and Audits used annual reports for expenses, when actual bills were not available.
10. The Division of Water and Audit's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
11. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
12. The quantities (Appendix D) used to develop the Division of Water and Audit's recommendations are reasonable and should be adopted.
13. Tahoe Cedars Water Company should file a Tier 2 advice letter within 30 days from the effective date of this resolution to collect a surcharge for the under-collected revenues from the interim rate date to the effective date of the new rates.
14. Tahoe Cedars Water Company should file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules in its tariff book to

meet with the current Commission sample forms: Title Page; Rules: 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 20, Fire Protection; and 21, Water Conservation; and Forms: 2, Customer's Deposit Receipt; and 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Tahoe Cedars Water Company is authorized to file a supplemental advice letter incorporating the revised rate schedule attached to this resolution as Appendix B and to concurrently cancel its presently effectively Schedules: No. 1, Annual General Metered Service, and No. 2SR, Seasonal Residential Flat Rate 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. Tahoe Cedars Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this resolution to collect a surcharge for the under-collected revenues from the interim rate date to the effective date of the new rates. The effective date of this advice letter shall be upon approval of Staff of the Division of Water and Audits.
4. Tahoe Cedars Water Company shall file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules in its tariff book to meet with the current Commission sample forms: Title Page; Rules: 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 20, Fire Protection; and 21, Commercial, Institutional and Industrial Wastes; and Forms: 2, Customer's Deposit Receipt; and 3, Bill for Service.

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 November 19, 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
 TAHOE CEDARS WATER COMPANY.
 SUMMARY OF EARNINGS
 Test Year 2010**

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Interim	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenues</u>					
Unmetered revenues	\$322,817	\$571,271	\$324,762	\$571,451	\$470,103
Metered revenues	28,378	50,216	36,205	50,217	41,301
Total revenues	351,195	621,487	360,967	621,668	511,404
<u>Operating Expenses:</u>					
Purchased power	36,926	36,926	36,926	36,926	36,926
Other volume related					
Employee labor	66,300	66,300	58,980	58,980	58,980
Materials	10,300	10,300	7,654	7,654	7,654
Contract work	14,200	14,200	13,356	13,356	13,356
Transportation	7,250	7,250	6,732	6,732	6,732
Other plant maintenance	4,900	4,900	2,919	2,919	2,919
Office salaries	30,600	30,600	30,600	30,600	30,600
Management	72,250	72,250	71,193	71,193	71,193
Employee pension & benefit	40,757	40,757	30,000	30,000	30,000
Uncollectible expense	878	1,553	878	1,287	1,287
Office services & rentals	20,400	20,400	20,400	20,400	20,400
Office supplies & expenses	6,400	6,400	6,400	6,400	6,400
Professional services	10,000	10,000	10,000	10,000	10,000
Insurance	11,338	11,338	9,366	9,366	9,366
Regulatory expense	6,700	6,700	4,320	4,320	4,320
General expenses	10,124	10,124	2,512	2,512	2,512
Total operating expenses	349,323	349,998	312,236	312,645	312,645
Depreciation expense	50,003	52,161	41,220	41,220	41,220
Taxes other than income	26,597	26,597	19,901	19,901	19,901
State taxes	800	17,228	800	21,899	12,167
Federal income taxes	-	52,538	0	71,321	32,184
Total deductions	426,723	496,364	374,157	466,985	418,117
Net Revenue	(75,528)	125,123	(13,190)	154,502	93,287
Rate Base					
Average Plant	1,517,130	1,517,130	1,299,267	1,299,267	1,299,267
Aver. Acc. Dep.	531,702	531,702	541,012	541,012	541,012
Net Plant	985,428	985,428	758,255	758,255	758,255
Less: Advances	-	-	-	-	-
Contributions	17,686	17,686	25,370	25,370	25,370
Deferred income taxes					
Plus: Materials & supplies	5,000	5,000	5,000	5,000	5,000
Working Cash	28,280	28,280	24,614	24,614	24,614
Rate Base	1,001,022	1,001,022	762,499	762,499	762,499
Rate of Return	(7.5)%	12.5%	(1.7)%	20.3%	12.2%

(END OF APPENDIX A)

**APPENDIX B
TAHOE CEDARS WATER COMPANY**

**Schedule No. 1
ANNUAL GENERAL METERED SERVICE
Test Year 2010**

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated territory including Tahoe Cedars Tract and vicinity, located near the community of Tahoma, in El Dorado and Placer Counties.

RATES

Quantity Rates		
All Water, Per 100 cu.ft.	\$1.56	(I)
Service Charge:	<u>Per Meter Per Year</u>	
For 5/8 x 3/4 -inch meter	\$ 224.18	(I)
For 3/4-inch meter	336.26	
For 1-inch meter	523.11	
For 1-1/2-inch meter	695.68	
For 2-inch meter	1,009.62	
For 3-inch meter	1,736.26	
For 4-inch meter	2,363.85	(I)

The Service Charge is readiness-to serve charge, which is applicable to all metered service, and to which is to be added the monthly charge computed at the Quantity Rates.

**APPENDIX B
TAHOE CEDARS WATER COMPANY**

**Schedule No. 2SR
SEASONAL RESIDENTIAL FLAT RATE SERVICE
Test Year 2010**

APPLICABILITY

Applicable to all flat rate service furnished on an annual or seasonal basis.

TERRITORY

The unincorporated territory including Tahoe Cedars Tract and vicinity, located near the community of Tahoma, in El Dorado and Placer Counties.

RATES

	<u>Yearly</u>	<u>Seasonal</u>	
1. For a single-family-residential either permanent or temporary	\$413.96	\$384.97	(I)
a. For each additional single-family-residential unit, either permanent or temporary, located on the same premises and served from the same service connection	\$262.43	\$235.32	(I)

SPECIAL CONDITIONS

1. The season shall be the eight-month period March 1st through October 31st.
2. The seasonal charge is due in advance.
3. The above flat rates apply to service not larger than one-inch in diameter.
4. The seasonal rate is closed to additional services.
5. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

**APPENDIX C
TAHOE CEDARS WATER COMPANY**

COMPARISON OF RATES

Test Year 2010

FLAT RATE SERVICE

	<u>Yearly</u>		
	<u>Interim Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
For a single-family-residential either permanent or temporary	\$289.48	\$413.96	43%

<u>Seasonal</u>			
	\$269.21	\$384.97	43%

METERED SERVICE CHARGE:

For 3/4 -inch meter	\$ 234.15	\$ 336.26	43%
For 1-inch meter	365.81	523.11	43%
For 4-inch meter	1,653.04	2,363.85	43%

QUANTITY RATES:

All water per 100 cu.ft.	1.091	1.560	43%
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(END OF APPENDIX C)

**APPENDIX D
 TAHOE CEDARS WATER COMPANY**

**ADOPTED QUANTITIES
 Test Year 2010**

1. Purchased Power	\$ 36,926
2. kWh	344,019
3. Uncollectibles	\$ 1,287
4. Taxes other than Income	\$ 19,901

Service Connections

Flat Rate

Single-Family Residential-Yearly	1,103
Single-Family Residential-Seasonal	31
Each Additional Single-Family-Yearly	<u>6</u>
Total	1,140

Metered Rate

¾-inch meter	1
1-inch meter	21
4-inch meter	<u>2</u>
Total	24

Metered Water Sales 16,187 Ccf

**INCOME TAX CALCULATIONS
 Test Year 2010**

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenues	\$511,404	\$511,404
2.	Operating Expenses	\$312,645	\$312,645
3.	Depreciation	\$ 41,220	\$ 41,220
4.	Taxes Other Than Income	\$ 19,901	\$ 19,901
5.	State Taxable Income	\$137,638	\$137,638
6.	State Tax (@8.84%)	\$ 12,167	\$ 12,167
		=====	=====
7.	Federal Taxable Income		\$ 125,471
8.	Federal Income Tax		\$ 32,184
9.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 44,351

(END OF APPENDIX D)