

WATER/RSK/PTL/LEP/1j

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4851
November 19, 2010

R E S O L U T I O N

**(RES. W-4851), MADDEN CREEK WATER COMPANY, INC. (MCW)
ORDER AUTHORIZING A GENERAL RATE INCREASE,
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$ 47,767 OR
78.7% FOR TEST YEAR (TY) 2010.**

SUMMARY

By Advice Letter (AL) 27, filed on May 26, 2010, MCW 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 \$47,767 or 78.7% which is estimated to provide a return of return of 12.98%.

BACKGROUND

MCW, a Class D 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 \$59,808 or 100.3% for test year 2010. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. MCW's request shows 2010 gross revenues of \$59,654 at present rates, increasing to \$119,461 at proposed rates. MCW is requesting a rate of return of 13.25%.

The present rates became effective on January 1, 2010, by approval of AL 26, which authorized an interim rate increase of \$1,074 or 1.8%. The last general rate case for MCW was granted on July 29, 1991, pursuant to Res. W-3600, which granted an increase in revenues of \$13,311 or 50.85% for TY 1991.

MCW currently provides water service to approximately 142 residential flat rate (some seasonal but mostly year around) and 23 metered customers in Homewood and the surrounding vicinity on the west shore of Lake Tahoe in Placer County.

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

MCW has one main well that pumps water up to 300 gpm and one storage tank with a 125,000-gallon capacity.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each MCW customer and to the service list on April 2, 2010. AL 27 was served as required by GO 96-B on May 26, 2010. The Division received no letters protesting the increase.

An informal public meeting was held on Thursday April 22, 2010 at the Fire House located on 5245 Westlake Blvd, Homewood, CA 96141. The meeting was attended by approximately 5 customers. The Division of Water and Audits (Division) staff explained to the participants the Commission rate-setting procedures, while MCW's representatives cited justifications for the proposed rate increase. Staff and MCW responded to various questions from the attendees.

DISCUSSION

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

MCW filed for a general rate increase based on taking the average of the three-year periods (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 MCW. Based on the Division of Ratepayer Advocates' memorandum of January 31, 2010, the Division uses a non-labor inflation rate of -3.6% for 2009, and 4.2% for 2010 for the appropriate operating expense, which MCW agrees with.

Employee Labor

MCW requests \$11,700. The Division's estimate of \$10,408 was based on the estimated hours needed for this water system and, accordingly, the Division recommends \$10,408.

Materials

MCW's estimate of \$1,189 was based on a three-year average for the period of 2006-2008. The Division's estimate of \$946 was based on a three-year average for 2007-2009.

Transportation Expenses

MCW's estimate of \$1,357 was based on a three-year average for the period of 2006-2008 plus an additional \$150 for additional expenses to maintain an excavator and trailer. The Division disallowed the additional \$150 expense to maintain the excavator because MCW has not acquired the excavator.

Other Plant Maintenance Expense

MCW's estimate of \$1,144 was based on a three-year average for the period of 2006-2008. The Division's estimate of \$485 was based on the three-year average from 2007-2009.

Employee Pension and Benefits

MCW requested employee pension & benefits of \$7,192 which included \$2,985 for a Self-Employee Pension Plan. The Division allowed the pension and benefits as incurred in 2009 and recommends \$3,616.

Uncollectible

MCW estimated uncollectible at \$1,195 or 1% of their estimated revenues. MCW did not record uncollectible account, therefore, the Division recommends \$600 for uncollectible.

Professional Services

MCW's estimate of \$5,100 includes \$3,300 in legal fees. The Division reviewed the records and adjusted the legal cost and recommends \$4,456.

Insurance

In its \$2,001 estimate, MCW included the insurance expense of a new utility truck and a new dump truck. Since none of those purchases have materialized, the Division disallowed those costs and recommends \$1,769.

Regulatory Commission Expense

MCW amortized its regulatory expense over three years and requests \$3,350. The Division reviewed the records and recommends \$2,060 by amortizing this expense over five years.

General Expense

MCW's estimate of \$1,030 includes Department of Public Health (DPH) fees. The Division disallowed the DPH fee as it is an offsetable expense and recommends \$264.

State and Federal Income Taxes

The difference between MCW and the Division's estimate in state and federal income taxes is due to different revenue and operating expense estimates.

Average Plant and Average Accumulated Depreciation

The Division estimate of average plant is \$313,382 and \$85,494 for accumulated depreciation. The difference in average plant and accumulated depreciation appears to be due to mathematical errors made by MCW.

Working Cash

The difference between MCW and the Division's estimate in working cash is due to different operating expense estimates.

Rate of Margin

MCW requested a Rate of Return of 13.25%. MCW is a Class D water utility with approximately 165 connections. The Division's Utility Audit, Finance & Compliance Branch (UAFCB) recommends a rate of return range from 12.50% to 13.50% for a Class D utility. The Division recommends adopting a rate of return of 13.0% for MCW, which is the midpoint percentage in the range recommended by the UAFCB. 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 23.03% for Class D water and water utilities. Division has determined that the Rate of Return produces the higher revenues of \$108,499 compared with a 23.03% Rate of Margin of \$95,447 and therefore, the Division recommends the 13.0% Rate of Return method.

MCW's rate structure consists of two schedules: Schedule No. 1, Annual General Metered Service, and Schedule No. 2A, 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 \$47,767 or 78.7% for TY 2010.

At the Division's recommended rates shown in Appendix B, the bill for a typical monthly flat rate residential MCW customer would increase from \$306.29 per year to \$551.32 or an 80% increase. A comparison of MCW 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, MCW 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; Schedule UF; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extension; 16, Service Connections, Meters, and Customer's Facilities; 20, Fire Protection, and Rule 21, Water Conservation; and Form 1, Application for Water Service; Form 2, Customer's Deposit Receipt; and 3, Bill for Service, and Connection Fee Data Form.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code Section 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. MCW currently serves approximately 142 residential flat rate (some seasonal but mostly year around) and 23 metered customers in Homewood and the surrounding vicinity on the west shore of Lake Tahoe in Placer County.
2. MCW has requested authority to increase its rates by \$59,808 or 100.3% for Test Year 2010.

3. MCW's present rates became effective on January 1, 2010, by approval of Advice Letter 26, which authorized an interim rate increase of \$1,074 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. AL 27 was served as required by GO 96-B on May 26, 2010.
5. The Division did not receive any letters protesting the rate increase.
6. The last general rate increase was granted on July 24, 1991, pursuant to Res. No. W-3600, which granted an increase in revenues of \$13,311 or 50.85% for Test Year 1991.
7. MCW filed for a general rate increase based on taking the average of the three-year periods' (2006-2008) recorded expenses and applying a 2.5% inflation factor for 2009 and 2010.
8. The Division used a non-labor escalation factor of -3.6% for 2009 and 4.2% for 2010 as provided by the Division of Ratepayer Advocates. MCW now agrees with the Division's inflation rates.
9. The Division used annual reports for expenses, when actual bills were not available.
10. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
11. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
12. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
13. MCW should file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect a one time surcharge for the under-collected revenues from the interim rate date to the effective date of the new rates.
14. MCW 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; Schedule UF; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and

Restoration of Service; 15, Main Extension; 16, Service Connections, Meters, and Customer's Facilities; 20, Fire Protection, and Rule 21, Water Conservation; and Forms 1, Application for Water Service; Form 2, Customer's Deposit Receipt; and 3, Bill for Service; and Connection Fee Data Form.

THEREFORE IT IS ORDERED THAT:

1. Madden Creek Water Company, Inc. 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: Nos. 1A, Annual General Metered Service, and 2A, 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. Madden Creek Water Company, Inc. is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect a one-time surcharge for the under-collected revenues from the interim rate date to the effective date of the new rates. This advice letter shall become effective upon approval by Staff of the Division of Water and Audits.
4. Madden Creek Water Company, Inc. 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; Schedule UF; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extension; 16, Service Connection Meters, and Customer's Facilities; 20, Fire Protection; and Rule 21, Water Conservation; and Form 1, Application for Water Service; Form 2 Customer's Deposit Receipt; Form 3, Bill for Service, and Connection Fee Data Form. This advice letter shall become effective five days after the date of filing.

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
MADDEN CREEK 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	\$39,103	\$78,247	\$39,808	\$78,325	\$71,654
Metered revenues	20,551	41,214	20,924	41,212	36,845
Total revenues	59,654	119,461	60,732	119,537	108,499
<u>Operating Expenses:</u>					
Purchased power	9,077	9,077	9,077	9,077	9,077
Employee labor	11,700	11,700	10,408	10,408	10,408
Materials	1,189	1,189	946	946	946
Contract work	626	626	626	626	626
Water Testing	934	934	934	934	934
Transportation	1,357	1,357	1,207	1,207	1,207
Other plant maintenance	1,144	1,144	485	485	485
Office salaries	5,400	5,400	5,400	5,400	5,400
Management	12,750	12,750	12,750	12,750	12,750
Employee pension & benefit	7,192	7,192	3,616	3,616	3,616
Uncollectible expense	1,195	1,195	600	600	600
Office services & rentals	3,600	3,600	3,600	3,600	3,600
Office supplies & expenses	962	962	962	962	962
Professional services	5,100	5,100	4,456	4,456	4,456
Insurance	2,001	2,001	1,769	1,769	1,769
Regulatory expense	3,350	3,350	2,060	2,060	2,060
General expenses	1,030	1,030	264	264	264
Total operating expenses	68,607	68,607	59,160	59,160	59,160
Depreciation expense	7,660	7,660	7,660	7,660	7,660
Taxes other than income	4,975	4,975	4,975	4,975	4,975
State taxes	800	3,379	800	4,220	3,245
Federal income taxes	-	5,226	0	6,528	5,019
Total deductions	82,042	89,847	72,595	82,544	80,059
Net Revenue	(22,388)	29,614	(11,863)	36,993	28,440
Rate Base					
Average Plant	314,219	314,219	313,382	313,382	313,382
Aver. Acc. Dep.	85,514	85,514	85,494	85,494	85,494
Net Plant	228,705	228,705	227,888	227,888	227,888
Less: Contributions	29,870	29,870	29,870	29,870	29,870
Plus: Materials & supplies	1,000	1,000	1,000	1,000	1,000
Working Cash	23,668	23,668	20,114	20,114	20,114
Rate Base	223,503	223,503	219,132	219,132	219,132
Rate of Return	(10.0)%	13.25%	(5.4)%	16.88%	13.0%

(END OF APPENDIX A)

APPENDIX B
MADDEN CREEK WATER COMPANY

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

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Homewood and vicinity, Placer County.

RATES

Quantity Rates

All Water, Per 100 cu.ft.	\$1.56	(I)
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Service Charge:

Per Meter Per Year

For 5/8 x 3/4 -inch meter	\$ 173.47	(I)
For 3/4-inch meter	260.20	
For 1-inch meter	433.67	
For 1-1/2-inch meter	520.40	
For 2-inch meter	693.87	
For 3-inch meter	387.75	
For 4-inch meter	2,081.62	(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.

SPECIAL CONDITIONS

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

**APPENDIX B-1
MADDEN CREEK WATER COMPANY**

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

APPLICABILITY

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

TERRITORY

Homewood and vicinity, Placer County.

RATES

	<u>Seasonal</u>	<u>Yearly</u>	
1. For a single-family-residential unit or the first unit of a multiple occupancy dwelling including premises	\$409.68	\$551.32	(I)
a. For each additional single-family-residential or multiple occupancy unit on the same premises and served from the same service connection	\$235.35	\$315.95	(I)

SPECIAL CONDITIONS

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

(END OF APPENDIX B)

**APPENDIX C
 MADDEN CREEK WATER COMPANY**

COMPARISON OF RATES
 Test Year 2010

<u>ANNUAL FLAT RATE SERVICE</u>	<u>Per Service Connection Per Year</u>		
	<u>Interim</u>	<u>Proposed</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
For a single family residential unit or the first of a multiple occupancy dwelling including premises	\$306.29	\$551.32	80%
a. For each additional single family residential or multiple occupancy unit on the same premises and served from the same service connection	\$175.53	\$315.95	80%
<u>SEASONAL FLAT RATE SERVICE</u>	<u>Per Service Connection Per Year</u>		
	<u>Interim</u>	<u>Proposed</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
For a single-family residential unit or first unit of a multiple occupancy dwelling, including premises	\$227.60	\$409.68	80%
a. For each additional single family residential or multiple occupancy unit on the same premises and served from the same service connection	\$130.75	\$235.35	80%
<u>METERED SERVICE</u>	<u>Per Service Connection Per Year</u>		
	<u>Interim</u>	<u>Proposed</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
<u>Service Charge:</u>			
For 1 inch meter	\$217.92	\$ 433.66	99%
For 4 inch meter	\$920.00	\$2,081.62	126%
 <u>Quantity Rates:</u>			
All Water Per 100 cu.ft.	\$.96	\$1.56	62.5%

(END OF APPENDIX C)

**APPENDIX D
 MADDEN CREEK WATER COMPANY**

**ADOPTED QUANTITIES
 Test Year 2010**

1. Purchased Power	\$ 9,077
2. kWh	69,780
3. Uncollectibles	\$ 600
4. Taxes other than Income	\$ 4,975

Service Connections

Flat Rate

Annual Flat Rate	105
Annual Flat Rate Additional Units	13
Seasonal Flat Rate	23
Seasonal Flat Rate Additional Units	<u>1</u>
Total Flat Rate	142

Metered Rate

1-inch meter	21
4-inch meter	<u>2</u>
Total	23

Metered Water Sales 15,112 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	\$108,499	\$108,499
2.	Operating Expenses	\$ 59,160	\$ 59,160
3.	Depreciation	\$ 7,660	\$ 7,660
4.	Taxes Other Than Income	\$ 4,975	\$ 4,975
5.	State Taxable Income	\$ 36,704	\$ 36,704
6.	State Tax (@8.84%)	\$ 3,245	\$ 3,245
7.	Federal Taxable Income		\$ 33,459
8.	Federal Income Tax		\$ 5,019
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(END OF APPENDIX D)