

WATER/ABJ/DON/JMW: jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4342
July 17, 2002**

R E S O L U T I O N

(RES. W-4342), BIG HILL WATER COMPANY (BHWC). ORDER AUTHORIZING (1) AN INCREASE IN RATES PRODUCING ADDITIONAL ANNUAL REVENUE OF \$58,632 OR 41% FOR TEST YEAR 2002, AND (2) A MONTHLY SURCHARGE OF \$12.83 PER CUSTOMER FOR 48 MONTHS TO RECOVER \$181,117 IN UNANTICIPATED WATER TREATMENT EXPENSES FOR AN OVERALL ANNUAL INCREASE IN REVENUE OF \$103,911 OR 72.6%.

SUMMARY

By Draft Advice Letter, accepted on October 22, 2001, Tuolumne Utilities District, receiver for BHWC, seeks an increase in rates for BHWC's water service to recover increased operating expenses. Additionally, BHWC is requesting a increase of \$181,117 to be paid by a surcharge over four years to recover the balance in its unanticipated water treatment expense memorandum account for expenses incurred during 2001. This resolution grants more than BHWC's asked for. It authorizes a general rate increase in gross annual revenues of \$58,632 or 41% for Test Year 2002 and a surcharge of \$12.83 per customer per month for 48 months to recover the \$181,117 recorded in its unanticipated water treatment memorandum account.

BHWC requested a \$53,521 or 36% increase in rates. Branch found different estimates of revenue and expense to be reasonable. If the increase was limited to BHWC's request, the resulting rate of return after Branch's adjustments would have been a negative 4.70% rate of return. Since BHWC requested a 0% rate of return it is reasonable to grant a \$58,632 or 41% rate increase, which is \$5,411 more than BHWC requested. That increase will allow for the corrected expense adjustments and maintain a zero rate of return as requested.

BACKGROUND

BHWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$53,221 or 36% in 2002. BHWC's request shows 2002 gross revenue of \$146,960 at present rates increasing to \$200,181 at proposed rates to produce a zero percent rate of return on rate base. BHWC also requested a surcharge of \$12.83 per customer per month for 48 months to

recover \$181,117 recorded in its unanticipated water treatment memorandum account, pursuant to Decision (D.) 92-03-093 dated March 31, 1992.

The last general rate increase became effective on March 13, 1996, pursuant to Res. W-3975, which authorized a rate increase of \$40,499 or 61.7% for test year 1995 and a rate of return of 14.0%. Current rates became effective on September 7, 2000, pursuant to Res. W-4222, which authorized an interim emergency rate increase of \$23,138 or 20% to diminish the amount of operating deficit, and to keep the utility operational.

BHWC serves approximately 294 metered customers in two areas around Columbia, Soulsbyville, and Sonora, in Tuolumne County.

BHWC is currently in the receivership of the Tuolumne Utilities District (TUD). The receivership was requested by the Department of Health Services (DHS), and ordered by the Superior Court of the State of California, County of Tuolumne, on December 5, 2000.

DISCUSSION

The Water Division (Division) made an independent analysis of BHWC's summary of earnings and issued its report in March 2002. Appendix A shows BHWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between BHWC's and the Division's estimates in operating revenues, purchased water expense, purchased power expense, and depreciation expense.

Revenue

Division used the estimated water sold and the estimated number of customers to estimate revenue. BHWC's estimate was based on projected recorded revenues. Division's estimate is more accurate because it uses consistent data. BHWC agreed with Division's estimate.

Purchased Water

In arriving at its estimate, Division considered that a two-year average of recorded purchased water costs was more accurate than a single year recorded amount because significant leaks will continue until the system is replaced. BHWC agreed with Division's estimate.

Purchased Power

In arriving at its estimate, Division considered that BHWC's power costs have gone down in the past year due in part to lower overall power rates, decreased leakage, and improved efficiency in the water system. BHWC has also lowered its power costs by switching some purchased power from PG&E to Tuolumne County Public Power Agency (TPPA). BHWC did

not consider all of these factors when it made its estimate. BHWC agreed with Division's analysis.

Depreciation

Division used the authorized Depreciation rate found in BHWC's last GRC. BHWC used recorded data from the last Annual Report. Division's estimate is more accurate because it uses authorized data. BHWC agreed with Division's estimate.

Return on Rate Base

BHWC requested that rates would produce a 0% rate of return. Given the Branch's estimate of revenue and expenses, granting BHWC's total requested revenue increase would result in BHWC earning a -4.70% rate of return. Granting BHWC a zero rate of return would require that BHWC be authorized 41% total revenue increase for test year 2002. Branch recommends the 41% increase.

As mentioned elsewhere in this Resolution, BHWC is in receivership and is being operated by Tuolumne Utilities District (TUD). TUD is in the process of purchasing BHWC as soon as it receives the grant money it has been promised from the State. For these reasons, TUD requests no return on its investment or a zero rate of return. The owners of the utility have agreed to not receive any income from the utility pending completion of the sale.

Rate Design

BHWC's current rate structure consists of two identical metered rate schedules: Schedules Nos. BH-1, General Metered Service, and MG-1, General Metered Service, for both the Big Hill District and Monte Grande District, respectively. The Branch recommends that all the rates, both Quantity Charge and Service Charge, be increased by the system average increase.

At the Branch's recommended rates shown in Appendix B, the bill for a typical monthly metered rate residential customer using the system average of 9.54 Ccf per month (one Ccf is equal to 100 cubic feet) would increase from \$40.20 to \$56.60, or 41% and a surcharge of \$12.83 per customer per month would be assessed for four years. 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.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer in the first week of December 2001. The Branch received four letters protesting the rate increase. These letters claimed that the proposed rates will be excessive for the customers, that TUD has been delaying its acquisition of BHWC, and that the water is still not safe or clean.

The Consumer Affairs Branch received one complaint in 1999, none in 2000, and one in October of 2001. The complaint in 2001 is about a dispute with the complainant being held responsible for a tenant's bill.

Section 454 of the Public Utilities Code requires a utility to notify its customers of any increase in rates it is requesting from the Commission. BHWC notified its customers it was requesting a \$53,221 or 36% increase in rates. Nothing in Section 454 of the Public Utilities Code restricts the Commission from granting a \$58,632 or 41% increase in rates. The extra \$5,411 the Commission is granting over BHWC's request is reasonable and necessary to provide BHWC with reasonable funds to operate the utility with a zero rate of return.

A public meeting was held at 7 p.m. on Thursday, January 10, 2002, at the TUD meeting room in Sonoma, California. Six customers from the Monte Grande system attended the meeting and were concerned that the money from the rate increase and surcharge would mostly go to improvements for the Big Hill system. The customers were glad to hear that by combining the two systems, TUD would be better able to qualify for loans to fix problems and that once they had paid off any loans required to fix the systems, they would be paying standard TUD rates, which are lower than what they currently pay. The Commission representative explained the general method the Division uses to examine the utility's request. The Utility's representative explained why the utility needed the increase.

Compliance

There is one outstanding Commission Order from D.01-05-042, which authorizes the transfer of BHWC to TUD. TUD is waiting for all property transfers to be appropriately recorded before executing the transfer agreement. The utility has been filing annual reports as required. BHWC needs to update Rules 5, 7, 8, 10, 11, 16, and 19 and Forms 2 and 3.

CONCLUSIONS

The Branch recommends that the Commission authorize a rate increase of \$58,632 or 41% for Test Year 2002 and a surcharge of \$181,117 spread over four years or \$12.83 per customer per month. This increase will provide a zero percent rate of return on rate base in the test year, which grants more than the full increase BHWC requested.

The new rate will increase estimated annual revenues from \$143,128 to \$201,760 at recommended rates as shown in Appendix A.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. BHWC should be ordered to update Rules 5, 7, 8,10,11, 16, and 19, and Forms 2 and 3.
5. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public utilities Code Section 454 for Big Hill Water Company to file an advice letter incorporating the summary of earnings and the revised Schedules Nos. BH-1, General Metered Service, and MG-1, General Metered Service, attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate schedules: Schedule No. BH-1, and MG-1, General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.
2. Big Hill Water Company is ordered to update Rules 5, 7, 8, 10, 11, 16, and 19, and Forms 2 and 3.
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 July 17, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President

HENRY M. DUQUE

CARL W. WOOD

GEOFFREY F. BROWN

MICHAEL R. PEEVEY

Commissioners

BHWC/DR AL/ABJ/DON/JMW:jlj

Appendix A

Summary of Earnings

Item	Utility Estimated		Branch Estimated		Recommended Rates
	Present Rates 2002	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Metered	\$146,960	\$200,181	\$143,128	\$194,625	\$201,760
Other	0	0	0	0	0
Total Operating Revenue:	\$146,960	\$200,181	\$143,128	\$194,625	\$201,760
Operating Expenses					
Purchased Water	12748	12748	15600	15600	15600
Purchased Power	17400	17400	14059	14059	14059
Employee Labor	60000	60000	60000	60000	60000
Materials	12000	12000	12000	12000	12000
Contract Work (excluding water testing)	29023	29023	29023	29023	29023
Water testing portion of contract work	2016	2016	2016	2016	2016
Transportation	0	0	0	0	0
Other Volume Related Expenses	5080	5080	5080	5080	5080
Other Plant	0	0	0	0	0
Maintenance	0	0	0	0	0
Office Salaries	0	0	0	0	0
Management Salaries	0	0	0	0	0
Employee Pensions & Benefits	36000	36000	36000	36000	36000
Uncollectibles	0	0	0	0	0
Office Services & Rent	0	0	0	0	0
Office Supplies	3360	3360	3360	3360	3360
Professional Services	7348	7348	7348	7348	7348
Insurance	2746	2746	2746	2746	2746
Regulatory Expenses	1764	1764	1764	1764	1764
General Expenses	0	0	0	0	0
Total Operating Expenses:	\$189,485	\$189,485	\$188,996	\$188,996	\$188,996
Depreciation	8987	8987	11055	11055	11055
Taxes other than Income Taxes	909	909	909	909	909
Payroll Taxes	0	0	0	0	0
Income Tax	800	800	800	800	800
Total Deductions:	\$200,181	\$200,181	\$201,760	\$201,760	\$201,760
Net Revenue:	(\$53,221)	\$0	(\$58,632)	(\$7,135)	0
Rate Base					
Average Plant	400198	400198	400198	400198	400198
Avg. Accumul. Depreciation	249422	249422	249422	249422	249422
et Plant	150776	150776	150776	150776	150776
Plus Working Cash	874	874	874	874	874
Materials and Supplies	0	0	0	0	0
Rate Base:	\$151,650	\$151,650	\$151,650	\$151,650	\$151,650
Rate of Return:	-35.09%	0.00%	-38.66%	-4.70%	0.00%

APPENDIX B

BIG HILL WATER COMPANY

Schedule No. BH-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Big Hill Division on Big Hill Road and vicinity, located approximately 5 miles east of Columbia, Tuolumne County.

RATES

Quantity Rate:

All water, per 100 cu. ft.....\$ 3.37 (I)

<u>Service Charge:</u>	<u>Per Meter Per Month</u>	<u>Surcharge</u>	(N)
5/8 x 3/4-inch meter.....	\$ 24.53 (I)	\$12.83	
3/4-inch meter.....	\$ 36.71	\$12.83	
1-inch meter.....	\$ 61.15	\$12.83	
1 1/2-inch meter.....	\$122.30	\$12.83	
2-inch meter.....	\$195.72 (I)	\$12.83	(N)

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

The Surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is for the repayment of labor and chemical memorandum accounts set up by Res. W-4218. This surcharge will expire after four years. (N)

(continued)

APPENDIX B
(continued)

BIG HILL WATER COMPANY

Schedule No. MG-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Monte Grande Division on Monte Grande Road and vicinity located approximately one mile south of Soulsbyville, Tuolumne County.

RATES

Quantity Rate:

All water, per 100 cu. ft\$3.37 (I)

Service Charge:

	<u>Per Meter Per Month</u>	<u>Surcharge</u>	(N)
5/8 x 3/4-inch meter.....	\$ 24.53 (I)	\$12.83	
3/4-inch meter.....	\$ 36.71	\$12.83	
1-inch meter.....	\$ 61.15	\$12.83	
1 1/2-inch meter.....	\$122.30	\$12.83	
2-inch meter.....	\$195.72 (I)	\$12.83	(N)

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

The Surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is for the repayment of labor and chemical memorandum accounts set up by Res. W-4218. This surcharge will expire after four years.

(continued)

APPENDIX C
BIG HILL WATER COMPANY

COMPARISON OF RATES

Test Year 2002

Metered Rate Service

Service Charge

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
<i>All services</i>			
5/8 x 3/4-inch meter	\$17.40	\$ 24.53	41%
3/4-inch meter	\$ 26.04	\$ 36.71	41%
1-inch meter	\$ 43.38	\$ 61.15	41%
1 1/2-inch meter	\$ 86.76	\$122.30	41%
2-inch meter	\$138.84	\$195.72	41%

Quantity Charge

Per 100 Cubic Feet	\$2.39	\$3.37	41%
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Cost per Customer per Month at Different Usage Levels: For customer with a 5/8-inch x 3/4-inch meter

Average Usage per Customer: 9.54 Ccf/Month

Usage (Ccf):	5	7.5	9.54	12.5	15
Cost at Proposed Rates:	\$41.38	\$49.81	\$56.68	\$66.66	\$75.08
Cost at Current Rates:	\$29.35	\$35.33	\$40.20	\$47.28	\$53.25
% Difference:	41%	41%	41%	41%	41%

APPENDIX D
BIG HILL WATER COMPANY
ADOPTED QUANTITIES
TEST YEAR 2002

Offset Items

1.	<u>Purchased Power</u>	
	<u>PG&E</u>	
	Schedule A-1	
	Total Cost	\$1,329.21
	Total kWh	9,203 kWh
	Average Unit Cost \$/kWh	\$0.14
	<u>TPPA</u>	
	Service Charge	\$5.00
	Charge per kWh	\$0.06
	Total Cost	\$12,730.45
	Total kWh	208,063
2.	Ad Valorem Taxes	\$909
	Service Connections	
1.	Meter Size	
	5/8" x 3/4"	294
	Consumption (Ccf) Per Year	33,672

Adopted Taxes

Test Year 2002

1.	Operation Revenues	\$194,625
2.	Expenses	\$188,996
3.	Depreciation	\$11,055
4.	Taxes other than Income	\$909
5.	Taxable Income for State Tax	\$0
6.	State Tax	\$800
7.	Taxable Income for FIT	\$0