

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water Branch

RESOLUTION NO. W-4463
March 16, 2004

R E S O L U T I O N

(RES. W- 4463), YOSEMITE SPRING PARK UTILITY COMPANY, INC (YSP). ORDER AUTHORIZING AN INCREASE IN RATES PRODUCING ADDITIONAL ANNUAL REVENUES OF \$558,510 OR 54.14% IN TEST YEAR 2003 AND A CONSUMER PRICE INDEX (CPI) INCREASE OF \$30,210 OR 1.9% IN 2004.

SUMMARY

By Amended Draft Advice Letter, accepted on April 10, 2003, YSP seeks an increase in rates of \$646,723 or 57.48% in 2003 for water service to recover increased operating expenses and provide an adequate rate of return on its capital investment. YSP also requests the incorporation of a facilities fee into its tariff for the construction of water mains, wells, and other infrastructure replacements, and improvements. This resolution grants an increase in gross annual revenue of \$558, 510 or 54.14%, which includes an interim increase of \$73,700 or 6.95% granted pursuant to Res. W-4436, dated November 13, 2003. The increase will provide a rate of return of 12.15% in 2003. This resolution also grants a CPI increase of \$30,210 or 1.9% in 2004. In addition this resolution grants a Facilities Fee, Schedule F, as shown in Appendix B.

BACKGROUND

YSP presently serves 1,590-metered customers in the unincorporated community of Yosemite Lakes Park, approximately five miles south of Coarsegold, Madera County.

YSP 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 \$646,723 or 57.48% in 2003. YSP's request shows 2003 gross revenue of \$1,125,045 at present rates increasing to \$1,771,768 at proposed rates to produce a rate of return on rate base of 12.25%. The utility also

requested to incorporate a facilities fee into its tariff for the construction of water mains, wells, and other infrastructure replacements, and improvements.

The present rates became effective on December 6, 2003, pursuant to Res. W-4436, which granted an interim rate increase of \$73,700 or 6.95%. The interim increase, subject to refund, was designed so that YSP could meet its cash flow requirements pending the completion of the Water Division's (Division) investigation and this final resolution of YSP's general rate increase request. YSP's last general rate increase became effective on April 2, 1996, pursuant to Res. No. W-3974, which authorized a general rate increase of \$131,387 or 19.45% and a rate of return of 3.54%.

DISCUSSION

The Division made an independent analysis of YSP's general rate increase request. Appendix A shows YSP's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates in test year 2003. Appendix A also shows differences between YSP's and the Branch's estimates in operating revenues, operating expenses, and rate base. YSP was informed of the Branch's differing views of revenues, expenses, and rate base and stated, in writing, that it agreed with the Division's findings and recommendations.

Because of the timing of this rate increase, the Division has included a CPI increase of 1.9% in rates for the year 2004 as authorized by Decision No. (D.) 92-03-093, dated March 31, 1992. This will increase the 2003 test year annual revenue by \$30,210. Accordingly, upon implementation of this resolution, customers will experience a total increase in revenues of \$588,720 or 57.07%.

YSP requested authority to incorporate a facilities fee into its filed tariff for the construction of water mains, wells, and other infrastructure replacements, and improvements. The Division reviewed the utility's request and supporting workpapers and found it to be reasonable. In view of this, the Division recommends the Facilities Fee, Schedule F, shown in Appendix B. The facilities fees will be collected from each customer requesting a new or upgraded service connection and range from \$4,986 for service with a 3/4-inch meter to \$26,590 for service with a 2-inch meter. Funds collected should be placed in interest-bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.

In its investigation, the Division discovered that YSP had included \$16,667 (\$50,000 amortized over three years) under professional services for costs to pursue legal action against a local gas station for contaminating utility well water with MTBE. The Division informed the utility that this was not the appropriate way to recover such costs. It is not reasonable to prospectively pass on to customers through rates costs that are presently unknown. The proper way to recover such costs is first by establishing a memorandum account authorized by the Commission in which the legal costs are tracked as they are incurred. Then at a time when the legal pursuit has concluded or the memorandum account balance is significant (greater than 2% of revenue), the utility files an advice letter requesting recovery. This rate increase filing will be closely scrutinized by the Division for reasonableness. In view of this, the Division recommends that YSP be authorized to establish and maintain a Legal Expense Memorandum Account (LEMA) to track legal costs associated with the pursuit of recovering water contamination costs caused by a local gas station. YSP should also be authorized to file for recovery of the LEMA balance subject to a reasonableness review by the Division.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and D water utilities. Thus, two methods are available for Division staff to utilize in the ratemaking process: Return on Rate Base (net investment) and Operating Ratio. Division is required to calculate the revenue requirement utilizing both the rate of return method and the operating ratio method. Policy dictates that Division will recommend the method that produces the higher revenues. Comparison of the revenue requirement using both methods indicates that the return on rate base method produces the higher revenue requirement. In keeping with policy, Division used the return on rate base method for determining the revenue requirement.

YSP's draft advice letter requested rates that would produce a return on rate base of 12.25%. The summary of earnings in Appendix A shows a rate of return of 12.15% at adopted rates. This rate of return is the midpoint of the rate of return range of 11.65% to 12.65% for Class C water utilities recommended by the Division's Audit and Compliance Branch.

YSP files Annual Reports regularly and there are no other outstanding Commission orders.

The utility's current rate structure consists of Schedule No. 1RA, Annual Metered Service. YSP is a Class C water utility. D.92-03-093 allows Class C water utilities to recover up to 65% of fixed costs in its readiness-to-serve-charge. Therefore, the service charge rates shown in Schedule No. 1RA in Appendix B recover 65% of YSP's fixed costs. Also, the service charges in Schedule 1RA are based on meter size consistent with the requirements of the water rate design policy set forth in a January 18, 1991, Water Branch Memorandum.

At the Branch's recommended rates shown in Appendix B, the bill for a typical 3/4-inch metered residential customer using 1000 cubic feet of water would increase from \$42.60 to \$67.27 or 57.91%. 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 on June 4, 2003. The Branch received 31 letters protesting the rate increase. The Division will respond in writing to each complainant. The Consumer Affairs Branch has received no complaints on YSP over the last two years.

A public meeting was held at the Yosemite Lakes Owners Association Clubhouse located at 30250 Yosemite Springs Parkway, Coarsegold, CA on June 26, 2003, at 7:00 p.m. There were approximately 200 persons at the meeting. The Division representative explained Commission rate-setting procedures, and the utility representative explained the need for the rate increase. Several customers spoke at the meeting and the primary concern was the magnitude of the increase. The Division representative explained that the Division staff would conduct a thorough investigation into the requested increase to insure that the final rates recommended to the Commission were fair and reasonable. The meeting adjourned at approximately 9:30 p.m.

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 in preparation of this report are reasonable and should be adopted.
4. YSP should be authorized to establish a Legal Expense Memorandum Account to track legal expenses associated with the pursuit of recovering water contamination costs caused by a local gas station.
5. YSP should be authorized to file an advice letter requesting recovery of the Legal Expense Memorandum Account balance subject to reasonableness review by the Water Division staff.
6. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
7. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Yosemite Spring Park Utility Company, Inc. to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate schedule No. 1RA, Annual 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. Yosemite Spring Park Utility Company, Inc. is authorized to establish a Legal Expense Memorandum Account to track legal expenses associated with the pursuit of recovering water contamination costs caused by a local gas station.
3. Yosemite Spring Park Utility Company, Inc. is authorized to file an advice letter requesting recovery of the Legal Expenses Memorandum balance subject to a reasonableness review by the Water Division staff.

4. 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 March 16, 2004; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I dissent.

LORETTA M. LYNCH
Commissioner

Appendix A
Yosemite Spring Park Utility Company, Inc.
Summary of Earnings
Test Year 2003

Description	YSP	Estimated	Branch	Estimated	Branch
	Present Rates	Requested Rates	Present Rates	Requested Rates	Recommended Rates
OPERATING REVENUES					
Water Revenues	\$1,125,045	\$1,771,768	\$1,031,460	\$1,640,160	\$1,589,970
OPERATING EXPENSES					
Purchased Power	291,504	291,504	291,500	291,500	291,500
Other Volume Related	15,777	15,777	15,780	15,780	15,780
Employee Labor	240,063	240,063	240,060	240,060	240,060
Materials	6,229	6,229	84,480	84,480	84,480
Contract Work	33,608	33,608	20,060	20,060	20,060
Transportation	16,219	16,219	16,220	16,220	16,220
Other Plant Maintenance	154,827	154,827	5,470	5,470	5,470
Office Salaries	67,562	67,562	67,560	67,560	67,560
Management Salaries	53,500	53,500	53,500	53,500	53,500
Employee Pensions and Benefits	34,210	34,210	34,210	34,210	34,210
Uncollectibles	9,563	14,648	680	680	680
Office Services and Rentals	16,346	16,346	14,410	14,410	14,410
Office Supplies	23,650	23,650	980	980	980
Professional Services	22,979	22,979	6,310	6,310	6,310
Insurance	83,984	83,984	83,980	83,980	83,980
Regulatory Commission Expense	3,367	3,367	3,370	3,370	3,370
General Expense	<u>6,252</u>	<u>6,252</u>	<u>6,250</u>	<u>6,250</u>	<u>6,250</u>
Total Operating Expenses	1,079,640	1,084,725	950,820	950,820	950,820
Depreciation	151,930	151,930	146,450	146,450	146,450
Non-Income Taxes	56,941	56,941	56,940	56,940	56,940
Other Taxes - YLOA assessments	6,000	6,000	0	0	0
Reimbursed expenses	(18,358)	(18,358)	(18,360)	(18,360)	(18,360)
Income Taxes	<u>800</u>	<u>195,400</u>	<u>800</u>	<u>200,890</u>	<u>180,890</u>
Total Deductions	1,276,953	1,476,638	1,136,650	1,336,740	1,316,740
Net Revenue	(151,908)	295,130	(105,190)	303,420	273,230
<u>Rate Base</u>					
Average Utility Plant	4,676,968	4,676,968	4,510,940	4,510,940	4,510,940
Accumulated. Depreciation	(2,309,812)	(2,309,812)	2,304,340	2,304,340	2,304,340
Materials and Supplies	<u>42,100</u>	<u>42,100</u>	<u>42,100</u>	<u>42,100</u>	<u>42,100</u>
Average Rate Base	2,409,256	2,409,256	2,248,700	2,248,700	2,248,700
Rate of Return	Loss	12.25%	Loss	13.49%	12.15%

APPENDIX B
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Yosemite Spring Park Utility Company, Inc.
Schedule No. 1-RA
ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Yosemite Lake Subdivision, and vicinity, Madera County.

RATES

Quantity Rate:

All water, per 100 cu. ft. \$ 2.943 (I)

Service Charge:

	Per Meter	
	<u>Per Year</u>	
For 3/4-inch meter	\$ 454.10	(I)
For 1-inch meter	756.85	
For 1-1/2-inch meter	1,513.70	
For 2-inch meter	2,421.95	
For 3-inch meter	4,541.15	
For 4-inch meter.....	7,568.60	
For 6-inch meter.....	15,137.25	(I)

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

SPECIAL CONDITIONS

1. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.
2. The established billing cycle for water used is quarterly.
3. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods. Meters will be read and quantity charges billed quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.
4. The opening bill for annual metered service shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credit against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (T)

APPENDIX B
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Yosemite Spring Park Utility Company, Inc.

Schedule No. F
FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

TERRITORY

Yosemite Lake Subdivision, and vicinity, Madera County.

RATES

Initial Fee for each Service Connection:

For	3/4-inch meter.....	\$ 4,986
For	1-inch meter.....	8,310
For	1-1/2-inch meter.....	16,620
For	2-inch meter.....	26,590

SPECIAL CONDITIONS

1. Facilities fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. Payments made under this schedule **are not** subject to the reimbursement fee set forth in Schedule No. UF.
3. Facilities fees authorized herein shall be deposited within five days of receipt in a separate bank account paying interest. A direct confirmation from the bank shall be mailed to the Director of the Water Division after making such deposit to verify the amount deposited.
4. Facilities fees shall be treated as Contributions-in-Aid-of-Construction and follow the requirements as specified in the Internal Revenue Code Section 118 to qualify as such.
5. Facilities fees shall be accounted for as Contributions-in-Aid-of-Construction in accordance with the Commission's prescribed Uniform System of Accounts. In addition the balance of facilities fees collected, including interest shall be reported in utility's annual report to the Commission.
6. The plant constructed with facilities fees shall be reduced from rate base for ratemaking purposes.

(END OF APPENDIX B)

APPENDIX C

Yosemite Spring Park Utility Company, Inc.

BILL COMPARISON

Comparison of a typical monthly bill for residential metered customers with a ¾-inch meter is shown below at pre-interim rates and recommended rates for year 2004:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount of</u> <u>Increase</u>	<u>Percent of</u> <u>Increase</u>
0	\$23.20	\$ 37.84	\$ 14.64	63.10%
5	32.90	52.56	19.66	59.74%
10	42.60	67.27	24.67	57.91%
20	62.00	96.70	34.70	55.97%
30	81.40	126.13	44.73	54.95%
40	100.80	155.56	54.76	54.33%
50	120.20	184.99	64.79	53.90%

(END OF APPENDIX C)

APPENDIX D
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Yosemite Spring Park Utility Company, Inc.

ADOPTED QUANTITIES
Test Year 2003

Expenses

1. Purchased Power

Vendor	Pacific Gas & Electric Co.
Schedules	various
Effective Date	various

Total Power Cost \$ 291,500

2. Insurance Expenses

General Liability Insurance 32,730

3. Ad Valorem Taxes

\$ 26,150

Composite Tax Rate 1.0854%

Assessed Value \$2,409,256

4. Water Testing Expenses (In Acct. 650-1)

\$ 20,060

Service Connections

Metered

¾-inch service 1,582

1-inch service 4

1-1/2-inch service 2

2-inch service 2

3-inch service 0

4-inch service 0

Total Metered 1,590

Metered water sales used to design rates: 302,672 Ccf.

APPENDIX D
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Yosemite Spring Park Utility Company, Inc.

ADOPTED INCOME TAX CALCULATIONS
Year 2003

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenues	\$1,589,970	\$1,589,970
2.	Expenses	950,820	950,820
3.	Taxes Other Than Income Taxes	56,940	56,940
4.	Depreciation	146,450	146,450
5.	Reimbursed Expenses	(18,360)	(18,360)
6.	State Taxable Income	454,120	
7.	State Income Tax (@8.84%)	40,140	
8.	Federal Taxable Income		413,980
9.	Federal Income Tax (@34%)		140,750
10.	TOTAL INCOME TAX	\$180,890	

(END OF APPENDIX D)