

WATER/FLC/TAC:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4536

June 30, 2005

R E S O L U T I O N

**(RES. W-4536), WARRING WATER SERVICE, INC. (WARRING).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$77,570 OR
24.5% IN TEST YEAR 2005.**

SUMMARY

This resolution grants an increase in gross annual revenue of \$77,570, or 24.5%, for test year 2005. The increase will provide a 12.8% rate of return on rate base in the test year.

BACKGROUND

Warring requests authority under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities (PU) Code to increase rates by \$98,000, or 28.8% in 2005. The purpose of the increase is to recover Warring's increased operating expenses and provide a rate of return on increased rate base. The request shows present rate revenues of \$339,798 increasing to \$437,798 at proposed rates. The request asked for an annual rate of return of 12.8%. This is slightly below the midpoint of returns developed for 2005 by the Water Division's Audit and Compliance branch. The range is 12.65% to 13.65% with the midpoint of 13.15%

This domestic water and irrigation system first came under CPUC jurisdiction by Decision (D.)23804, June 22, 1931 which approved the transfer of both systems to Piru Fruit Rancho, Incorporated. As authorized by D.89-12-032, December 18, 1989, Warring sold the irrigation system to Piru Mutual Water Company. The present owner, Gary Pace, took over the system in 1991 as authorized in D.91-12-006, December 4, 1991.

The system consists of the following: three wells, one 1.1 MG storage tank, five chemical pumps, three storage tanks, 64,988 Ft. of pipe ranging from 2" to 12" and 38 fire hydrants. It serves about 453-metered residential water customers in the unincorporated community of Piru and vicinity, Ventura County. Most customers are full-time residents, with a mixture of retired and working individuals.

In 1992 a new housing project was started called Ventura Affordable Communities. The developer was Bob Cole. In order for the water company to provide the needed services, the developer agreed to pay for all of the off-site improvements, including the 1.1 MG water tank. The total improvements were estimated to cost \$663,812.

On January 17, 1994, a major earthquake caused substantial damage to Warring's system. Warring secured a Small Business Administration (SBA) loan in the amount of \$47,653 (approved by Resolution No. F-631, May 12, 1994). This was enough to repair all of the earthquake related damage, with the exception of the reservoir. Warring commissioned the engineering firm of Furgo West on April 1, 1994, to make a thorough evaluation of the reservoir's integrity. The Furgo study concluded that "it would be possible to engineer a long-term solution; however, the cost of the repairs may be in excess of the cost of a new reservoir..." Warring believed that it may be able to fund a new reservoir through developer contributions.

At this same time, the developer had started the engineering of the new water tank, but was not in a position to do the construction. After many meetings and discussions, it was decided that Warring would apply for an SBA loan to build the tank and other off-site improvements. The developer would then later reimburse Warring for these costs in exchange for a Main Extension Contract. The original loan was \$576, 800. The developer then ran into financial problems and in 1997 filed for bankruptcy. At the time the developer filed for bankruptcy, he had spent \$181,938 toward the off-site improvements (the majority of this money was spent for engineering costs.). Warring completed the project and was left to pay for the SBA loan. This loan does not have Commission approval. The current loan balance with SBA (for both loans) is approximately \$450,000.

On February 9, 2005, Warring secured a \$160,000 loan from Santa Barbara Bank & Trust to refinance a loan with the Santa Clara Valley Bank. Neither of these loans was authorized by the Commission. Warring also has a line of credit dated July 19, 2000 with Santa Barbara Bank & Trust in the amount of \$50,000. The bank conducts periodic review of Warring's financial condition and performance under the line of credit agreement and may extend the agreement on a yearly basis.

Warring's current rates became effective on May 5, 2004, pursuant to Decision No. 92-03-093, which authorized a cost of living rate increase of \$5,286 or 1.9% and the recovery of \$521 in DHS fees. The last general rate increase became effective August 3, 1994, pursuant to Resolution (Res.) W-3873, which authorized a general rate increase of \$35,634 or 29.9% and an annual rate of return of 13.6%.

DISCUSSION

Water Division staff (Staff) performed an independent analysis of Warring's summary of earnings and issued its report on February 10, 2005. Warring's and Staff's estimates for operating revenues, operating expenses, and rate base at both present and proposed rates for the Test Year 2005 can be found in Appendix A. Warring was informed of the Staff's differing views on revenues, expenses and rate base and stated that it agreed with the Staff's findings.

Warring's tariff sheets were reviewed by Staff and the following sheets need to be updated: Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, Rule 20, Water Conservation, Rule 21, Fire Protection, and Form 2, Customer's Deposit Receipt.

Warring's current rate structure consists of three schedules: Schedule No. 1, General Metered Service, Schedule No. 3, Irrigation Service and Schedule No. 4, Private Fire Protection Service. Rates were designed by increasing each component by the overall percentage increase. The new rate schedules can be found in Appendix B. Bill comparisons can be found in Appendix C.

Two methods are available for Staff to utilize in the ratemaking process: (1) Rate of Return and (2) Rate of Margin. Staff first calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the rate of margin method. Policy dictates that Staff will recommend the method that produces the higher revenues.¹ In Res. No. W-4524, March 17, 2005, the CPUC adopted a revised set of standard practices for determining the profit of Class C and D water utilities using the rate of return and rate of margin methods. Based on this revision, the Water Division determines a standard set of rates of return and rates of margin based on current data, to be used by Staff in that year's Class C and D general rate cases. In the rate of margin method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expense, income and other taxes, multiplied by the rate of margin. A rate of margin of 25% was used.

Comparison of the revenue requirement indicates that the Rate of Return method produces a higher revenue requirement. Staff recommends the Rate of Return method revenue requirement. Warring's draft advice letter requested rates which it estimated

¹ D.92-03-093, April 30, 1992.

would produce a rate of return on rate base of 12.8%. The summary of earnings in Appendix A shows a rate of return of 12.8% at Staff's recommended rates.

At the Staff's recommended rates shown in Appendix B, the monthly bill for the average metered customer using 22 Ccf water will increase from \$33.47 to \$41.67, or 24.5%. 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.

Warring is presently carrying some unauthorized debt and should be required to file an advice letter to request approval for:

1. The \$450,000 loan balance with SBA. This amount includes \$52,100 authorized by Res. F-631. The filing should indicate the terms and conditions of the loan; security and encumbrance; and what the \$450,000 was used for.
2. The 160,000 loan from Santa Barbara Bank & Trust. The filing should indicate the terms and conditions of the loan; security and encumbrance; and what the proceeds of the original loan from Santa Clara Valley Bank were used for.
3. The line of credit with Santa Barbara Bank & Trust is reviewed annually and may be extended for another 12 months. If the line of credit is still available now, Warring should request authorization for this line of credit pursuant to Section 823(d).

NOTICE AND PROTESTS

Customer notices of the proposed rate increase were mailed to each customer on December 6, 2004. No protest letters were received by Staff.

From January 1, 2004 to December 31, 2004, the Consumer Affairs Branch of the Public Affairs Division received no complaints regarding Warring.

On January 12, 2005, Staff held an informal public meeting in Warring's service area. The meeting started at 6:45 pm and adjourned at 7:15pm. One customer attended the meeting. Ms. Cherkas, Senior Utilities Engineer, explained the Commission rate setting procedures. The customer who attended the meeting said that service was satisfactory.

COMMENTS

This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

FINDINGS

1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Staff's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
5. The following tariff sheets need to be updated: Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, Rule 20, Water Conservation, Rule 21, Fire Protection, and Form 2, Customer's Deposit Receipt.
6. Warring should be required to file an advice letter to request approval for the \$450,000 loan balance with the Small Business Administration, the \$160,000 loan from Santa Barbara Bank & Trust and the line of credit with Santa Barbara Bank & Trust.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Warring Water Service, Inc. to file an advice letter incorporating the summary of earnings and revised schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule No. 1, General Metered Service, Schedule No. 3, Irrigation Service, and Schedule No. 4, Private Fire Protection Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Warring Water Service, Inc. shall update the following tariffs: Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, Rule 20, Water Conservation, Rule 21, Fire Protection, and Form 2, Customer's Deposit Receipt.
3. Within the next 60 days, Warring Water Service, Inc. shall file an advice letter to request approval for the \$450,000 loan balance with the Small Business Administration, and the 160,000 loan from Santa Barbara Bank & Trust. The filing should indicate the (1) terms and conditions of the loan; (2) security and

encumbrance; and (3) what the \$450,000 was used for. If it still exists Warring Water Service, Inc. shall file for approval of the line of credit with Santa Barbara Bank & Trust, also.

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 June 30, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President

GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
Commissioners

Commissioner John A. Bohn, being necessarily absent, did not participate.

APPENDIX A
Warring Water Service, Inc.
SOE - Test Year 2005

Description	WWS	WWS	Branch	Branch	Branch
	Present Rates	Requested Rates	Present Rates	Requested Rates	Recommended Rates
OPERATING REVENUES					
Metered Water Revenue	307,798	396,569	281,379	350,344	350,344
Irrigation Revenue	32,000	41,229	34,963	43,536	43,536
Fire Protection Revenue			125	156	156
TOTAL REVENUES	339,798	437,798	316,466	394,036	394,036
OPERATING EXPENSES					
Purchased Power	33,150	33,150	37,183	37,183	37,183
Other Volume Related Exp.	16,370	16,370	6,181	6,181	6,181
Employee Labor	53,856	53,856	52,000	52,000	52,000
Materials	5,695	5,695	5,695	5,695	5,695
Contract Work – General Exp.	1,780	1,780	1,780	1,780	1,780
Contract Work – Water Testing	4,340	4,340	2,920	2,920	2,920
Transportation Expenses	16,932	16,932	14,950	14,950	14,950
Office Salaries	14,280	14,280	12,000	12,000	12,000
Management Salaries	14,280	14,280	12,000	12,000	12,000
Employee Pensions and Benefits	20,400	20,400	20,400	20,400	20,400
Uncollectible Accounts Exp.	0	0	0	0	0
Office Services and Rentals	6,630	6,630	6,630	6,630	6,630
Office Supplies and Expenses	6,120	6,120	6,120	6,120	6,120
Professional Services	4,896	4,896	3,000	3,000	3,000
Insurance	12,240	12,240	12,672	12,672	12,672
Regulatory Commission Exp.	2,550	2,550	2,550	2,550	2,550
General Expenses	6,120	6,120	6,120	6,120	6,120
SUBTOTAL	219,639	219,639	202,201	202,201	202,201
Depreciation Expense	24,734	24,734	23,716	23,716	23,716
Taxes Other Than Income Taxes	20,691	20,691	17,480	17,480	17,480
Income Taxes	18,638	45,724	18,112	47,006	47,006
TOTAL DEDUCTIONS	283,702	310,788	261,509	290,403	290,403
NET REVENUE	56,096	127,010	54,957	103,633	103,633
RATE BASE					
Average Plant	1,759,481	1,759,481	1,605,499	1,605,499	1,605,499
Avg. Accumulated Depreciation.	384,330	384,330	345,849	345,849	345,849
Less: Contributed Plant	401,666	401,666	469,092	469,092	469,092
NET PLANT	973,485	973,485	790,558	790,558	790,558
Working Cash.	18,303	18,303	18,303	18,303	18,303
Materials and Supplies	735	735	735	735	735
RATE BASE	992,523	992,523	809,596	809,596	809,596
RATE OF RETURN					
	5.65%	12.8%	6.79%	12.8%	12.8%

(End of Appendix A)

APPENDIX B
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Warring Water Service, Inc.

Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Piru and vicinity, Ventura County.

RATES

Quantity Rates:

All water used per 100 cubic feet..... \$ 1.078 (I)

Service Charge:

	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meters	\$ 17.95 (I)
For 3/4-inch meters	\$ 26.93
For 1-inch meters	\$ 45.08
For 1-1/2-inch meters	\$ 89.99
For 2-inch meters	\$ 143.98
For 3-inch meters	\$ 269.92
For 4-inch meters	\$ 449.93
For 6-inch meters	\$ 899.79 (I)

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

SPECIAL CONDITIONS

1. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. 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 to the account of the landlord or property owner.

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Warring Water Service, Inc.

Schedule No. 3
IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service.

TERRITORY

Piru and vicinity, Ventura County.

RATES

Quantity Rates:

All water used per 100 cubic feet..... \$ 0.466 (I)

Service Charge:

		<u>Per Meter</u>	
		<u>Per Month</u>	
For	2-inch meters	\$ 80.35	(I)
For	3-inch meters	\$ 157.43	
For	4-inch meters	\$ 263.03	
For	6-inch meters	\$ 525.98	(I)

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

SPECIAL CONDITIONS

1. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. 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 to the account of the landlord or property owner.

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Warring Water Service, Inc.

Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately-owned fire protection systems.

TERRITORY

Piru and vicinity, Ventura County.

RATES

	<u>Per Service</u> <u>Per Month</u>	
For each inch in diameter of service connection.....	\$ 6.46	(I)

SPECIAL CONDITIONS

1. The applicant will pay without refund the entire cost of service connection installation. All installation will be in accordance with the Utility's plans and specifications and will be maintained to the satisfaction of the utility.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall not be more than the diameter of the main to which service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. The customer's installation must be such as to separate effectively the fire sprinkler system from that of the customer's regular water service. The utility may require the installation of a standard detector check or other similar device acceptable to the utility, which will indicate theft, leakage or waste of water and the cost shall be paid without refund by the applicant. Any unauthorized use of this water will be charged for at the regular established rate for general metered service, and/or may be ground for the utility's discontinuing the fire sprinkler service without liability to the utility.

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Warring Water Service, Inc.

Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS (continued)

5. There shall be no cross-connection between the fire sprinkler system supplied by the water through the utility's fire sprinkler service to any other source of supply without the specific approval of the utility. This specific approval will require, at the customer's expense, a special double check valve installation or other device acceptable to the utility. Any unauthorized cross-connection may be grounds for immediately discontinuing the sprinkler system without liability to the utility.
6. The utility will supply only such water at such pressures as may be available from time to time as a result of its normal operation of the system.
7. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(End of Appendix B)

APPENDIX C

Warring Water Service, Inc.

Comparison of Rates - Test Year 2005

Monthly Bill Comparison for a customer with a 5/8 -inch metered service

Usage 100 cu.ft.	Present Rates	Recommended Rates	Amount	Percent
0	14.42	17.95	3.53	0.2448
10	23.08	28.73	5.65	0.2448
20	31.74	39.51	7.77	0.2448
22 (Avg.)	33.47	41.67	8.194	0.2448
30	40.4	50.29	9.89	0.2448
40	49.06	61.07	12.01	0.2448

(End of Appendix C)

APPENDIX D
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Warring Water Service, Inc.

Adopted Quantities - Test Year 2005

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
29% for next \$25,000 of taxable income
34% for next \$235,000 of taxable income

2. State Tax Rate: 8.84%

3. Service Connections:

3/8 x 5/8"	401	customers
1"	17	customers
1 1/2"	13	customers
2"	14	customers
3"	2	customers
4"	1	customer
Total	448	customers
Fire Protection	2	customers
Irrigation	4"	- 3 customers

4. Property Taxes: \$7,476
1.14% tax rate

5. Payroll Taxes: \$4,440

6. Contract Work - Water Testing: \$2,920

7. Purchased Power
Southern California Edison, Schedule No. PA-1
Power-Agricultural and Pumping Connected Load Basis

Energy Charge:
kWh used: 355,002
\$/kWh: \$0.1047
Customer Charge:
\$/mo.: \$17.65
Service Charge:
\$/pump/mo.: \$2.04

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Adopted Quantities - Test Year 2005
(Continued)

8. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$394,036	\$ 394,036
2.	Expenses	\$202,201	\$ 202,201
3.	Taxes Other Than Income Taxes	\$ 17,480	\$ 17,480
4.	Depreciation	\$ 23,716	\$ 23,716
5.	State Taxable Income	\$150,639	
6.	State Income Tax (@8.84% or \$800 minimum)	\$ 13,316	
7.	Federal Taxable Income		\$ 137,323
8.	Federal Income Tax (@15%)		\$ 33,690
9.	TOTAL INCOME TAX		\$ 47,006

(End of Appendix D)