

WATER/FLC/PTL/LEP/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER & AUDITS DIVISION

RESOLUTION NO. W-4640

May 3, 2007

R E S O L U T I O N

(RES. W-4640), BAKMAN WATER COMPANY (BAKMAN). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING AN ADDITIONAL ANNUAL REVENUE OF \$419,548 OR 37.8% IN TEST YEAR 2007.

SUMMARY

By Draft Advice Letter, filed on October 3, 2006, Bakman seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. The Water Division (Division) accepted this draft advice letter as complete for filing on October 27, 2006.

For Test Year 2007, this resolution grants an increase in gross annual revenues of \$419,548 or 37.8% which is estimated to provide a return of margin of 23%.

BACKGROUND

Bakman, a Class C water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$484,193 or 43.7% for test year 2007. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of margin. Bakman's request shows 2007 gross revenues of \$1,108,694 at present rates, increasing to \$1,592,887 at proposed rates.

The last general rate case for Bakman was granted on January 9, 2002 per Res. W-4310, which granted an increase in revenues of \$66,913 or 9.31%. In addition, on October 2, 2003 the Commission in Decision (D.) 03-10-003 authorized an additional increase of \$115,992 or 13.7% for test year 2000. Bakman was also authorized a Consumer Price Index (CPI) increase of \$36,955 or 3.4% effective May 18, 2006.

Bakman currently has 1,900 connections. Bakman's service area is located approximately 1.5 miles east of Fresno, California. Bakman's service territory is mostly residential with 1,777 flat rate connections and 128 metered connections. Bakman plans to meter all its customers by 2020. Most connections are residential with a large portion

being multi-residential units (apartments). Mr. Richard Tim Bakman is president and manager of the utility. Bakman has an office manager and two additional office employees, one field supervisor and three field employees. Bakman has general metered, general flat rate service, private fire protection service, and public fire protection service schedules.

The system receives water from 11 active wells located throughout the company's single pressure zone distribution system with approximately 57 miles of water mains. The active sources include Wells Nos. 2, 6, 7, 8, 8a, 9, 10, 11, 12, 13a, 14 and 15. A granular activated carbon (GAC) filtration system was installed in December 1996. This improvement was made to keep Well No. 9 in service to keep the fire protection at the proper levels. Wells Nos. 10 and 15 are designated as stand by wells due to the dibromochloropropane (DBCP) concentrations exceeding the maximum contamination level (MCL). Well No 13 is designated inactive while Wells Nos. 1, 3, and 4 have not been used for years and are designated as abandoned.

The total capacity of the active wells is in excess of 5,000 gpm. The wells typically discharge into pressure tanks and are controlled by pressure switches. The pressure in the distribution system ranges from 40 to 60 psi. Bakman has no auxiliary power supplies for any of the wells. Each well site is inspected every Monday and Friday by the staff.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on December 5, 2006. The Division did not receive any letters protesting the increase.

DISCUSSION

The Division made an independent analysis of Bakman's operations and issued its report on April 3, 2007. Appendix A shows Bakman's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2007. Bakman had some concern with some individual issues but accepted the overall results. The Division recommends establishing a memorandum account for purchased water. The company is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses, including purchased power, employee labor, materials, water testing, plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. Staff

verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

Bakman's rate base is a negative \$189,739. Bakman's negative rate base is due to lawsuits proceeds received from E&G Gallo and Shell Oil Company for contaminated wells. The Commission in D.03-12-066 directed the utility to credit the proceeds to contribution in aid of construction. The proceeds from the lawsuits plus the contributions received by Bakman for the current construction project are larger than the plant in service less depreciation which resulted in a negative rate base.

Bakman's estimate of average plant is \$7,112,409. The Division reviewed the plant in service since the last general rate case and subsequent D.03-12-066 and agrees with this estimate. Bakman included in its water utility plant estimate two additions, a 412 residential home development called Centex Homes (Centex) and a commercial development called Fancher Creek Development. Construction of the commercial phase of the project will follow the residential construction. Centex expects to begin home sales in October 2007. Subsequent meter installation will follow home construction.

The scope of the new water utility plant for the Fancher Creek project includes mains, distribution lines, valves and fire hydrants. All costs for the two projects except for \$45,578 will be contributed by the developer.

In January and February 2005, Bakman received a total of \$197,000 in settlement proceeds from water contamination lawsuits filed by Bakman against the City of Fresno, Boeing, and the Army Corps of Engineers. Bakman has indicated that while it received a settlement of \$197,000 it incurred \$543,671 in legal costs to pursue the lawsuit. After subtracting the legal costs from the revenues Bakman proposed to reduce the contribution account by \$346,671 but did not include the revenues or expenses in its filing. Bakman was also unable to provide supporting documentation for the settlement expenses and subsequently the Division recommended and Bakman agreed to file an advice letter to address the reasonableness of the revenues and expenses incurred from the lawsuits against the City of Fresno, Boeing, and the Army Corps of Engineers.

Bakman requested a rate of margin of 20%. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12% to 13% for a Class C, 100% equity financed utility. Two methods are available for Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per D.92-03-093, dated March 31, 1992, the Division must

recommend the method that produces the higher revenues. In the rate of margin method, the utility's revenue requirements is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. A&C has recommended a rate of margin of 23% for Class C water utilities. Since Bakman has a negative rate base the rate of return method is not applicable and consequently the rate of margin method produces a higher revenue requirement; therefore, the Division recommends the rate of margin method.

Bakman's rate structure consists of four schedules: Nos. 1, General Metered Service, 2, General Flat Rate Service; 4, Private Fire Protection Service, and 5, Public Fire Protection Service. The rates proposed by the Division are shown in Appendix B. At the recommended rate of margin the increase in revenue will be \$419,548 or 37.8% for test year 2007.

At the Division's recommended rates shown in Appendix B, a flat rate single family residential customer's bill will increase from \$20.25 to \$27.94 a 38.0% increase. 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.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. However, Bakman needs to update its Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 15, Main Extensions; 16, Service Connections, Meters and Customer's Facilities; Forms 2, Customer's Deposit Receipt; 3, Bill for Service; and 12, Connection Fee Data Form.

FINDINGS

1. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.

4. Bakman should be required to update its Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 15, Main Extensions; 16, Service Connections, Meters and Customer's Facilities; Forms 2, Customer's Deposit Receipt; 3, Bill for Service; and 12, Connection Fee Data Form.
5. Bakman should be authorized to establish a memorandum account for purchased water.
6. Bakman should be authorized to file an advice letter to address the reasonableness of the revenues and expenses associated with the contamination lawsuit filed by Bakman against the city of Fresno, Boeing, and the Army Corps of Engineers.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Bakman Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedules Nos. 1, General Metered Service, 2 General Flat Rate Service, 4, Private Fire Protection Service, and 5, Public Fire Protection Service. The effective date of the revised schedule shall be five days after the date of filing.
2. Bakman Water Company is authorized to increase its annual revenues by \$419,548 or 37.8% for test year 2007.
3. Bakman Water Company shall update the following tariffs within 30 days in its tariff book: Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 15, Main Extensions; 16, Service Connections, Meters and Customer's Facilities; Forms 2, Customer's Deposit Receipt; 3, Bill for Service; and 12, Connection Fee Data Form.
4. Bakman is authorized to file to establish a memorandum account for purchased water.
5. Bakman shall file an advice letter to address the reasonableness of the revenues and expenses associated with the contamination lawsuit filed by Bakman against the city of Fresno, Boeing, and the Army Corps of Engineers.

6. 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 May 3, 2007; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

APPENDIX A
BAKMAN WATER COMPANY
SUMMARY OF EARNINGS
 Test Year 2007

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenues</u>					
Water Sales	\$1,108,694	\$1,592,887	\$1,108,694	\$1,592,887	\$1,528,242
<u>Operating Expenses:</u>					
Purchased water	51,566	51,566	5,400	5,400	5,400
Purchased power	280,526	280,526	280,526	280,526	280,526
Employee labor	134,650	134,650	105,261	105,261	105,261
Materials	20,330	20,330	20,330	20,330	20,330
Contract work	35,098	35,098	35,098	35,098	35,098
Transportation	44,349	44,349	44,349	44,349	44,349
Other plant maintenance	22,486	22,486	22,486	22,486	22,486
Office salaries	101,600	101,600	89,560	89,560	89,560
Management	95,860	95,860	95,860	95,860	95,860
Employee pension & benefit	78,570	78,570	70,487	70,487	70,487
Uncollectible expense	500	500	500	500	500
Office services & rentals	68,520	68,520	68,520	68,520	68,520
Office supplies & expenses	60,943	60,943	60,943	60,943	60,943
Professional services	49,639	49,639	49,639	49,639	49,639
Insurance	41,793	41,793	37,579	37,579	37,579
Regulatory expense	0	0	0	0	0
General expenses	14,468	14,468	13,468	13,468	13,468
Total operating expenses	1,100,898	1,100,898	1,000,006	1,000,006	1,000,006
Depreciation expense	63,764	63,764	63,764	63,764	63,764
Payroll tax	30,904	30,904	26,946	26,946	26,946
Property taxes	10,169	10,169	10,169	10,169	10,169
State taxes	800	34,224	800	43,493	37,778
Federal income taxes	-	120,892	1,051	158,169	135,186
Total deductions	1,206,535	1,360,851	1,102,735	1,302,546	1,273,849
Net Revenue	(97,845)	232,036	5,954	290,341	254,394
Rate Base					
Average Plant	7,112,409	7,112,409	7,112,409	7,112,409	7,112,409
Aver. Acc. Dep.	1,751,004	1,751,004	1,751,004	1,751,004	1,751,004
Net Plant	5,361,305	5,361,305	5,361,305	5,361,305	5,376,1305
Plus: Working Cash	20,953	20,953	20,953	20,953	20,953
Less: Advances	447,452	447,452	447,452	447,452	447,452
Contributions	5,124,185	5,124,185	5,124,185	5,124,185	5,124,185
Rate Base	(189,739)	(189,739)	(189,739)	(189,739)	(189,739)
Rate of Return	N/A	N/A	N/A	N/A	N/A
Rate of Margin					23%

APPENDIX B
Sheet 1
BAKMAN WATER COMPANY
Schedule No. 1
GENERAL METERED SERVICE
Test Year 2007

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Fowler Avenue, located approximately 1-1/2 miles east of Fresno, and vicinity, Fresno County.

RATES

Quantity Rate:		
All water Used, per 100 cu.ft.	\$ 0.955 (I)	
	<u>Per Meter</u>	
	<u>Per Month</u>	
Service Charge:		
For 5/8x3/4-inch meter	\$ 8.85	(I)
For 3/4-inch meter	8.85	
For 1-inch meter	13.25	
For 1-1/2-inch meter	19.00	
For 2-inch meter	26.50	
For 3-inch meter	53.00	
For 4-inch meter	79.60	
For 6-inch meter	141.60	
For 8-inch meter	221.20	
For 10-inch meter	442.30	(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.

(continued)

APPENDIX B
Sheet 2
BAKMAN WATER COMPANY
Schedule No. 2
GENERAL FLAT RATE SERVICE
Test Year 2007

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Fowler Avenue, located approximately 1-1/2 miles east of Fresno, and vicinity, Fresno County.

RATES

	Per Service Connection	
	<u>Per Month</u>	
	Connection	
	<u>Charge</u>	
1. For each single family residential unit, including premises not exceeding 14,000 square feet in area	\$27.94	(I)
2. For multiple residential unit, including two units and premises	39.44	
3. For each business establishment with one toilet and wash basin and served from a 3/4-inch service connection	19.72	
4. For each business establishment served from a 1-inch service connection	55.24	
5. For a 2-inch service connection to Raintree Nursing Home	138.00	
6. For a 4-inch service connection to School No. 2 (Turner School)	360.00	(I)

(continued)

APPENDIX B
Sheet 3
BAKMAN WATER COMPANY
Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE
Test Year 2007

APPLICABILITY

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

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Fowler Avenue, located approximately 1-1/2 miles east of Fresno, and vicinity, Fresno County.

RATE

Per Month

For each inch of diameter of service connection	\$5.60 (I)
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SPECIAL CONDITIONS:

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
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 the 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.

(continued)

APPENDIX B
Sheet 4
BAKMAN WATER COMPANY
Schedule No. 5
PUBLIC FIRE PROTECTION SERVICE
Test Year 2007

APPLICABILITY

Applicable to all water service furnished to municipalities, duly organized fire districts, and other political subdivisions of State.

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Fowler Avenue, located approximately 1-1/2 miles east of Fresno, and vicinity, Fresno County.

RATE

Per Month

For each inch of diameter of service connection	\$8.74 (I)
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SPECIAL CONDITIONS:

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rate under Schedule No. 1, General Metered Services.
2. Relocation of any fire hydrant shall be at the expense of the party requesting relocation.
3. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public agency. Such authorization shall designate the specific location at which each is to be installed.
4. The utility shall supply only such water at such pressure as may be available from time to time as a result of the normal operation of the system.

(continued)

(END OF APPENDIX B)

APPENDIX C
BAKMAN WATER COMPANY
 Schedule No. 1
GENERAL METERED SERVICE
Test Year 2007

COMPARISON OF RATES:
METERED SERVICE

	<u>Per Meter Per Month</u>		
	Present	Proposed	Percent
	Rates	Rates	Increase
Service Charge:			
For 5/8x3/4-inch meter	\$ 6.41	\$ 8.85	38.1%
For 3/4-inch meter	6.94	8.85	27.5%
For 1-inch meter	9.22	13.25	43.7%
For 1-1/2-inch meter	13.49	19.00	40.8%
For 2-inch meter	18.42	26.50	43.9%
For 3-inch meter	36.08	53.00	46.9%
For 4-inch meter	51.26	79.60	55.3%
For 6-inch meter	86.31	141.60	64.1%
For 8-inch meter	126.31	221.20	75.1%
For 10-inch meter	153.84	442.30	187.5%
Quantity Rate:			
All water, per 100 cu.ft	\$ 0.707	\$ 0.955	35.1%

Schedule No. 2
GENERAL FLAT RATE SERVICE
 Test Year 2007

1. For each single family residential unit, including premises not exceeding 14,000 square feet in area	\$20.25	\$27.94	38.0%
2. For multiple residential unit, including two units and premises	28.60	39.44	37.9%
a. for each additional unit	14.29	19.72	37.9%
3. For each business establishment with one toilet and wash basin and served from a 3/4-inch service connection	12.51	17.26	38.0%
4. For each business establishment served from a 1-inch service connection	40.34	55.24	36.9%
5. For a 2-inch service connection to Raintree Nursing Home	89.31	138.00	54.5%
6. For a 4-inch service connection to School No. 2 (Turner School)	250.82	360.00	43.5%

(END OF APPENDIX C)

APPENDIX D
BAKMAN WATER COMPANY
ADOPTED QUANTITIES
Test Year 2006

1. Purchased Power	\$ 280,526
2. kWh	2,251,093
3. Uncollectibles	\$ 500
4. Property Tax	\$ 10,169

Service Connections

Metered Rate

5/8x 3/4-inch	0
3/4-inch	0
1-inch	1
1-1/2-inch	58
2-inch	53
3-inch	3
4-inch	13
6-inch	<u>2</u>
Total Metered	128
Metered Water Sales	187,008 Ccf

Flat Rate	1,777
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INCOME TAX CALCULATIONS

Test Year 2007

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenues	\$1,528,242	\$1,528,242
2.	Operating Expenses	\$1,000,006	\$1,000,006
3.	Depreciation	\$ 63,764	\$ 63,764
4.	Payroll Tax	\$ 26,946	\$ 26,946
5.	Property Tax	\$ 10,169	\$ 10,169
6.	State Taxable Income	\$ 427,358	\$ 27,358
7.	State Tax (@8.84%)	\$ 37,778	\$ 37,778
		=====	=====
5.	Federal Taxable Income		\$ 389,580
6.	Federal Income Tax		\$ 135,186
7.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 172,964

(END OF APPENDIX D)