

WATER/FLC/PTL/AAS/ijj

DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch

RESOLUTION NO. W-4673
January 31, 2008

R E S O L U T I O N

**(RES. W-4673), LONG CANYON WATER COMPANY (Long Canyon).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$34,336 OR 253% RELATIVE TO
2006 GROSS REVENUES.**

SUMMARY

By draft advice letter filed on July 5, 2007 Long Canyon requested an increase of \$36,330 or 267% in annual gross revenue for test year 2007 to recover operating expenses and earn an adequate return on its plant improvement. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on July 5, 2007.

For Test Year 2007, this Resolution grants an increase in gross revenues of \$34,336 or 253% which is estimated to provide a Rate of Return of 13.35%.

BACKGROUND

Long Canyon, a Class D water utility, has requested authority under Section VI of General Order 96-B and Section 454 of the Public Utilities Code to increase its rates by \$36,330 or 267%. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Long Canyon's request shows 2007 gross revenues of \$13,572 at present rates increasing to \$49,902 at their proposed rates. The last general rate increase for Long Canyon was on April 21, 1993, by Res. W-3766 which granted an increase of \$12,647 or 169% with a 14.15% rate of return on rate base for Test Year 1993.

Long Canyon's present rate became effective on October 4, 2007, by approval of Advice Letter (AL) 14-W, which authorized an interim rate increase in gross annual revenues of \$19,000 or 139.7%.

Long Canyon currently serves 64 residential flat rate customers in its service area in the town of Weldon, in Kern County. The majority of customers are full-time residents, being a mixture of retired or working individuals.

NOTICE

A notice regarding the general rate increase was mailed to each customer on August 20, 2007. A discrepancy was found by CPUC staff in the calculations indicated and Long Canyon was instructed to re-notify its customers. The notice was corrected and resent on September 4, 2007.

PROTESTS

No protests were received.

DISCUSSION

The Division made an independent analysis of Long Canyon's operations. Appendix A shows Long Canyon's and the Division's estimated summary of earnings at present, proposed, and recommended rates for Test Year 2007. Long Canyon is in agreement with the summary of earnings and the Division's recommended rates in Appendix A.

The Division staff reviewed operating revenues and expenses including purchased power, employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent. The staff report contains details of the review.

The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12.85% to 13.85% for a Class D, 100% equity financed utility. Two methods are available for the 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 Decision (D.) 02-03-093, 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.

Rate of Margin calculations yielded allowable revenue for the test year to be \$44,794. Rate of Return calculations yielded allowable revenue for the test year to be \$47,908. This is the higher level and was chosen.

Long Canyon's current rate structure consists of two schedules: Nos. 1, Metered Service, and 2R, Residential Flat Rate Service. At the recommended rate of return the increase in revenue will be \$34,336 or 253% for Test Year 2007.

At the Division's recommended rates shown in Appendix B, the bill for a flat rate residential customer would increase from \$212.06 to \$748.57. A comparison of customer bills for adopted and recommended rates is shown in Appendix C. The projections and tax calculations are shown in Appendix D.

CONSERVATION

The community of Weldon is on the edge of Lake Isabella. The east end of the lake is fed by the South Fork of the Kern River. The lake level is presently 60% lower than its nominal low levels.

At the public meeting held on September 17, 2007, all attendees requested water meters to be installed. The utility immediately indicated willingness to start a program to install meters.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. However, the utility needs to update the following: change its system map to indicate clearly locations of all areas covered; Preliminary Statement; Schedule UF; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Application for Water Service; and 3, Bill for Service.

COMMENTS

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

FINDINGS

1. The Division's recommended earnings (Appendix A) are 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 Division's recommendations are reasonable and should be adopted.
4. Long Canyon should be required to submit a meter installation plan in order to accommodate customers' requests and conservation concerns.
5. Long Canyon should be required to update its service map; Preliminary Statement; Schedule UF; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Application for Water Service; and 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Long Canyon 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 Schedules Nos. 1, Metered Service, and 2R, Residential Flat Rate Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Long Canyon Water Company is authorized to increase its annual revenues by \$34,336 or 253%, for test year 2007.
3. Long Canyon Water Company shall submit to the Division of Water and Audits a meter installation plan within 90 days of the effective date of this resolution.
4. Long Canyon Water Company is ordered to update its service area map; Preliminary Statement; Schedule UF; Rules 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Application for Water Service; and 3, Bill for Service.

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 January 31, 2008; 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
Long Canyon Water Company
Summary of Earnings - Test Year 2007

	Utility Present Rates	Utility Proposed Rates	Branch Est. Present Rates	(Using ROM) Proposed Rates	(Using ROR) Adopted Rates
Operating revenues					
Flat Rate water revenue	13,572	49,902	13,572	44,794	47,908
Other revenue	-	-	0	0	0
Total revenue calc	13,572	49,902	13,572	44,794	47,908
Oper. & Maint. Expense					
Power	9,749	11,493	11,634	11,634	11,634
Other Vol Rel Expense	704	1,670	704	704	704
Employee labor	3,600	3,600	3,600	3,600	3,600
Materials	877	500	500	500	500
Contract work	966	2,704	2,704	2,704	2,704
Transportation expenses	1,440	1,440	1,440	1,440	1,440
Other Plant Maintenance	2,026	1,383	1,383	1,383	1,383
Office salaries	3,000	3,075	3,075	3,075	3,075
Management salaries	3,000	3,075	3,075	3,075	3,075
Uncollectibles expense	200	200	200	200	200
Office Svcs & Rentals	1,713	1,713	1,713	1,713	1,713
Office supplies & expenses	252	252	252	252	252
Professional services	1,751	1,100	1,100	1,100	1,100
Insurance	0	1,750	0	0	0
Regulatory comm. expense	900	1,500	900	900	900
General expenses	870	300	300	300	300
Total operating expenses	31,048	35,755	32,580	32,580	32,580
Depreciation	2,167	2,489	2,370	2,370	2,370
Payroll tax	0	720	720	720	720
Property tax	3,746	1,106	540	540	540
State tax	800	-	800	877	1,159
Federal income tax	0	1,843	0	1,356	1,793
Total deductions	6,713	6,158	4,430	5,863	6,582
Net Revenue	(24,189)	7,989	(23,438)	6,378	8,746
Interest	0	-	0	0	0
Net Income	(24,189)	7,989	(23,438)	7,274	8,746
Average plant	163,068	181,091	173,587	173,587	173,587
Average accum. dep.	55,250	55,863	55,863	55,863	55,863
Net plant	107,818	125,228	117,724	117,724	117,724
Plus: Working cash	0	0	0	0	0
Mat'l & supplies	500	500	500	500	500
Less: Advances	0	0	0	0	0
Contributions	52,708	52,708	52,708	52,708	52,708
Rate Base	55,610	73,020	65,516	65,516	65,516
ROR = NetRev/Rate Base	-42.95%	10.94%			13.35%
Rate of Margin				20%	

(END OF APPENDIX A)

APENDIX B

Schedule No. 1
METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Tract # 3428, and areas within Parcel Map 9737, located south of State Route 178 in the community of Weldon, in Kern County.

RATES

Quantity Rate:

All water, per 100 cubic feet.....	\$3.262	(I)
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Service Charge:

Per Meter Per Month

For 5/8 x 3/4-inch meter.....	\$ 46.38 (I)
For 3/4-inch meter.....	\$ 69.54
For 1-inch meter.....	\$115.93
For 1-1/2-inch meter.....	\$231.89
For 2-inch meter.....	\$370.97(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 Rates.

SPECIAL CONDITIONS

1. As authorized by the California Public Utilities Commission, all bills are subject to a surcharge of \$32.23 to be billed quarterly until Southern California Edison Company's costs are recovered. This charge offsets the Southern California Edison Company's increased power cost incurred from 2002 through 2006.
2. All bills are subject to the Reimbursement Fee set forth in Schedule No. UF.

APPENDIX B

Schedule 2R
RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

Tract # 3428, and areas within Parcel Map 9737, Kern County, located south of State Route 178 in the community of Weldon, California.

RATES

	<u>Per Service Connection</u>	
	<u>Per Year</u>	<u>Per Quarter</u>
For a single family residential unit including premises not exceeding 12,000 sq. ft. in area	\$748.57 (I)	\$187.14 (I)
(a) For each additional single family unit on the same premise and served from the same service connection	\$540.69 (I)	\$135.16 (I)
(b) For each 100 sq. ft. of premise in excess of 12,000 sq. ft.	\$ 7.34 (I)	\$ 1.84 (I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 1 inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For all service covered under this rate schedule, the customer shall have the option of annual or quarterly billing.
4. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.
5. All customers receiving water service under this schedule may elect to pay on a quarterly basis.
6. As authorized by the California Public Utilities Commission, all bills are subject to a surcharge of \$32.23 to be billed quarterly until Southern California Edison (SCE) costs are recovered. This charge offsets the SCE increased power cost incurred from 2002 through 2006.
7. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C

Long Canyon Water Company

COMPARISON OF RATES

TEST YEAR 2007

1. Metered Rates

Long Canyon does not currently have any metered rate customers.

2. Flat Rates (Yearly)

<u>Tariff Description</u>	<u>Pre-Interim Rates</u>	<u>Recommended Rates</u>	<u>Amount of Increase</u>	<u>Percent Increase</u>
Single-family residence	\$212.06	\$748.57	\$536.51	253%
Each additional unit on same connection	\$153.17	\$540.69	\$387.52	253%
Each 100 sq. ft. of premises in excess of 9,000 sq. ft.	\$2.08	\$7.34	\$5.26	253%

(END OF APPENDIX C)

APPENDIX D

Long Canyon Water Company

ADOPTED QUANTITIES

TEST YEAR 2007

Expenses:

1. Purchased power (Southern California Edison) - Schedule PA-1	
kWh used	66,834 kWh
Annual power cost	\$11,634
Composite energy cost	\$0.171/kWh
2. Number of service connections	64
3. Adopted tax calculation:	
Operating revenue	\$47,559
Operating Expenses	\$32,350
Depreciation	\$ 1,327
Taxes other than income	\$ 540
Interest	\$ 0
Taxable income for state tax	\$13,112
State income tax	\$ 1,159
Taxable income for federal tax	\$11,953
Federal income tax	\$ 1,793
California corporate franchise tax rate-minimum	\$ 800
Federal income tax rate - only lowest tier applies	15%

(END OF APPENDIX D)