

WATER/SNR/MRB:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER & AUDITS

RESOLUTION W-4677

February 28, 2008

R E S O L U T I O N

**(RES. W-4677), FULTON WATER COMPANY (FWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$198,745 OR 46.5% IN 2008.**

BY DRAFT ADVICE LETTER ACCEPTED ON SEPTEMBER 4, 2007

SUMMARY

This Resolution grants FWC an increase in gross annual revenue of \$198,745 or 46.5%, for test year 2008. The increase will provide a 12.6% rate of return on rate base for Test Year 2008.

BACKGROUND

FWC, by draft advice letter accepted on September 4, 2007, requested authority under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities Code to increase overall rates for water service by \$199,227 (46.6%) in Test Year 2008. FWC's request shows year 2008 gross revenue of \$427,409 at present rates increasing to \$626,636 at proposed rates to produce an 11.3% rate of return on rate base.

FWC's present interim rates became effective on January 1, 2008, authorized by Resolution W-4658. The previous rate, a Consumer Price Index increase, became effective on May 29, 2007. The last General Rate Increase was granted on January 22, 1999, pursuant to Resolution W-4129 which authorized an increase of \$61,590 or 21.5% in gross revenues. This resulted in a 9.83% return on rate base.

System Description

FWC is a Class C water utility serving approximately 910 customers in two noncontiguous service areas next to Lake Tahoe, approximately two miles north of Tahoe City. The Links-Caledonia area, about a mile from the main system, has its own well serving about 35 customers, plus an unfiltered lake intake for emergency use only. The main system has two active lake intakes with filter systems and one well serving

about 875 customers, plus one unfiltered lake intake for emergency use only. An additional well for the main system is partially completed.

All customers in FWC are residential, with no commercial, industrial or public use services. FWC has flat rate service only, with an annual flat rate tariff and a monthly tariff for fire hydrants. The company has a metered rate tariff, but no metered customers.

Over \$660,000 of new plant has been added or replaced other plant in service since 1998. The company has about 66,000 feet of mains, including about 21,400 feet of 6-inch pipe, about 12,200 feet of 4-inch pipe, and smaller sizes. FWC hopes to replace or upgrade much of this pipe in the next few years.

System Ownership

FWC has been owned and operated by the Fulton family since 1927. It is presently owned and operated by John Fulton, Mary Fox, and Craig Fox.

General Office

FWC's business office is at 515 Nightingale Road, Carnelian Bay in Placer County.

DISCUSSION

The Fulton Estate Company subdivided land and provided well water in the service area since 1927. John A. Fulton and Margaret F. Mason, owners of Fulton Water Company, were granted a Certificate of Public Convenience and Necessity by the California Railroad Commission on October 1, 1946. The Fulton family has always run the water company. The Fultons also own and operate a plumbing company in the area, which supplies part-time labor to the water company when needed. Other than that, the company has one full-time laborer. Craig Fox has a Grade 2 Treatment License and a Grade 2 Distribution License. Employees have taken classes toward licensing.

On October 7, 1967, FWC acquired and began operating the Links system, a small group of homes not adjacent to the main service area. An adjacent mutual system, the Caledonia Circle Homeowners' Association mutual water system drawing water from Lake Tahoe, was interconnected for emergency sharing of water. When Caledonia's pump failed, the customers requested that FWC take over their company. This was approved by CPUC on February 8, 1995.

On July 3, 1979, the Commission authorized sale of the Panorama area of FWC to the Tahoe City Public Utilities District.

The California Department of Public Health says the company is fully in compliance with current water quality standards. The company borrowed over \$800,000 in 1995 to improve the system to comply with the new Surface Water Treatment Rule. FWC installed multi-barrier filter systems to treat Lake Tahoe water. The company has just drilled a new well, not yet completed or approved, to provide a second source for the main service area.

There are no connections for private fire service. FWC has a contract with the local fire department to maintain 54 hydrants at \$2.00 per hydrant per month.

Summary of Earnings

The Branch made an independent analysis of FWC's summary of earnings. Appendix A shows FWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates for Test Year 2008. The final column shows the revenues and expenses adopted by the Commission.

Branch's estimate of revenues at proposed rates is \$560 lower than FWC's because:

1. FWC's estimate of rate base is about \$71,900 more than the Branch rate base;
2. FWC's estimated operating expenses and deductions are about \$7,500 more than Branch; and
3. FWC's proposed rate of return on rate base of 11.3% is lower than the Branch-proposed rate of return of 12.6%.

Operating Expenses

Account 615 - Purchased Power

FWC's estimated purchased power for 2008 is \$73,827. Power bills reviewed for October 2006 through September, 2007 add up to \$69,339. Based on Sierra Pacific Power Co's latest rates and FWC's kilowatt-hour usage, Branch estimates 2008 power cost will be \$75,768.

Account 630 - Employee Labor

FWC estimates \$34,120 for employee labor. Branch estimates \$24,120 for employee labor, assuming that the FWC manager's increased labor will handle any increased need for part-time labor.

Account 670 - Office Salaries

Branch accepts FWC's office salary estimate of \$32,500. This is less than the 2006 Annual Report amount of \$33,702.

Account 671 - Management Salaries

FWC's management salary of \$42,000 in 2002, 2003, and 2004 was reduced in 2005 and 2006 to provide additional funding for other expenses. Based on the Water Division's Utility Audit, Finance, and Compliance Branch (A&C) escalation factors, normal labor escalation of the 2002 management salary would result in a 2008 salary of \$51,180. The FWC manager says if his salary is increased to \$61,200 he will do more water company labor, and will not need the proposed increase in employee labor. Branch accepts FWC's proposed management salary of \$61,200.

Account 674 - Employee Pensions and Benefits

FWC currently provides health care but no pensions to its employees. They request funding of a Simplified Employee Pension (SEP) amounting to 10% of employee salaries. Branch believes a SEP would be reasonable for employees that earned more than \$500 during the year, and reduced the requested amount by \$500.00. FWC should open a SEP account at a nearby financial institution to track pensions.

Rate Base

Branch rate base is \$71,929 less than that of FWC. Branch calculations show \$193,619 less for plant in service, primarily because FWC had included a well under construction and not yet used and useful as part of plant in service. Branch shows \$17,890 less for depreciation reserve; FWC had included depreciation for plant not in service. Branch included \$100,000 for construction work in progress, a new well ; FWC showed \$0 for construction work in progress.

Plant In Service

FWC estimated that plant in service would increase by \$259,278 in 2007, and by \$40,200 for mains to be added in 2008, a total of \$299,478. Branch included the actual recorded increase for 2007 of \$17,056, and nothing for 2008. Standard Commission accounting practice provides that new plant not be considered for ratemaking purposes until it is actually in service.

FIELD INVESTIGATION, NOTICE, CUSTOMER COMPLAINTS, AND PUBLIC MEETING

Field Investigation

On October 29, 2007, Branch inspected FWC records in Carnelian Bay, California. Records inspected included bills for equipment, for well drilling, for plant in service

and for electrical power. On October 29, Branch also looked at the company's well sites, lake water intakes, filter systems, pumps, workshop, and office.

Notice To Customers

On November 8 and 9, 2007, a Notice of Proposed Rate Increase was published in the local newspaper, the Sierra Sun. Notices were left at each residence on November 10 and 11. On November 18, 2007, copies of the notice were mailed to all customers announcing FWC's request to increase water rates by 46.6%. The notice announced a public meeting for December 10, 2007.

Customer Complaints

Complaints were received at the public meeting, by mail, by e-mail, and by telephone. Complaints focused on the large amount of the proposed increase. Some customers requested lower rates because they were not full-time residents of the water district.

Public Meeting

A public meeting was held on December 10, 2007 between 9:00 and 11:30 AM at the Truckee Airport meeting room. Attendees included Martin Bragen representing the Commission; Craig and Mary Fox, and John Fulton and wife, water company owners and operators; and about 30 customers.

Mr. Bragen opened the meeting, introduced FWC representatives, and explained the purpose of the meeting and CPUC's role. He then had FWC representatives explain the reasons for the requested rate increase. Following this, customer questions were answered by FWC representatives and Mr. Bragen.

In addition to complaints about the size of the proposed increase, water company customers said they wanted the system improved so an electrical power failure will not result in a water outage. Use of future emergency generators, future storage tank increases, and an emergency cross-connection to the Tahoe City Public Utilities District (PUD) were discussed.

Several customers said they would like to pay the cost of meter installation and have metered service, feeling it would cost them less. Craig Fox said he will not allow one-at-a-time metered connections but would only install meters if they are installed on all services. He estimated the cost for system-wide metering to be about \$700,000. Craig said the cost of the meter and its installation would be only a small part of the cost to the company; metered service would require meter reading at least quarterly, billing at least quarterly, a meter repair shop and meter testing capability. Mr. Fox also discussed

the need for future main replacement because many of the mains are more than 50 years old.

Rate Design

FWC proposes to increase flat rates by 46.6%. Metered rates would be reduced so a 3/4-inch metered service would cost customers the same as a flat rate 3/4-inch service, assuming customers used the same amount of water in both cases. Existing metered rates are now significantly higher than proposed new flat rates.

FWC's filing erroneously included a rate increase for fire protection services. Since FWC has a contract with the local fire department setting the rate for hydrant maintenance, FWC and Branch agreed there would be no rate increase for fire protection services. FWC does not offer private fire protection service.

Future Metering

FWC should develop a plan to meter all its flat rate water customers, and discuss with customers whether they prefer to pay the cost of meter installation, meter reading and billing, rather than having other system improvements. Installation of meters could promote conservation of water resources as well as provide FWC with information on water losses. FWC should submit a plan to meter all flat rate customers at the time of its next general rate case filing.

Cost of Capital

Rate of Return on Rate Base

FWC has requested a compound rate of return on rate base of 11.3%, based on the fact that part of the company's plant in service is financed by a variable-rate loan currently charging 8% interest. This is the manner in which rate of return is determined for water companies with more than 2,000 customers. However, to keep smaller companies financially viable, Commission policy is to use a uniform rate of return regardless of how plant in service is financed.

Effective April 3, 2007, the Water Division's A&C recommends a rate of return on rate base from 12.10% to 13.10% for Class C water companies [those with 500 to 2,000 customers]. FWC is a Class C water company with 910 active customers. The Water Branch of the Water Division recommends the average rate of return on rate base authorized for a Class C water company, 12.6%. With a rate base of \$1,157,877 this would require a net revenue of \$145,892 after expenses and deductions.

Rate of Margin

A&C recommends a rate of margin of 19% for Class C water companies. The rate of margin is a percentage of the sum of operating expenses plus taxes and depreciation. A 19% rate of margin would be an increase of \$59,662.

Rate of Return on Rate Base Selected

As required by the Commission in Resolution W-4524 of March 17, 2005, both Rate of Return on Rate Base and Rate of Margin must be calculated. Decision 92-03-093 of March 31, 1992 requires that Branch recommend the option which gives the water company the greater return. Rate of Return on Rate Base has been selected because it will provide the greater revenue to the utility.

Interim Rate Increase

An interim rate increase was approved effective January 1, 2008, subject to Commission Resolution W-4658. New rates approved in this Resolution will be effective January 1, 2008, and recovery of revenues uncollected by the interim rate increase is reasonable.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

A draft of this Resolution was served on interested parties for review and comments. No comments were received.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
3. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix D) used in preparation of this Resolution are reasonable and should be adopted.
5. FWC has 910 flat rate customers, and no customers with meters. The company should have a plan to meter all its flat rate customers.
6. An interim rate increase was granted to FWC effective January 1, 2008, with the increase subject to refund, up or down, depending on the final rates found reasonable for the test year.
7. The final rates granted by this Resolution are greater than those granted by the interim rate increase; therefore, FWC is entitled to recovery of revenues uncollected by the interim rate increase.

8. The surcharge granted by this Resolution to recover revenues uncollected by the interim rate increase is reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Fulton 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 cancels its presently effective rate Schedules Nos. 1A, Annual General Metered Service; and 2RA, Annual Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Fulton Water Company is authorized to increase its annual revenues by \$198,745 or 46.5% for test year 2008.
3. Fulton Water Company is authorized to collect a surcharge to recover revenues uncollected by the interim rate increase.
4. Fulton Water Company is ordered to submit a plan to meter all its flat rate customers at the time of its next general rate case filing.
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 February 28, 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

Commissioners

Commissioner Timothy Alan Simon, being necessarily absent did not participate.

**APPENDIX A
 FULTON WATER COMPANY
 SUMMARY OF EARNINGS
 TEST YEAR 2008**

	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenue</u>					
Unmetered Revenue	\$426,059	\$624,636	\$426,059	\$624,804	\$624,804
Fire Protection Revenue	1,350	2,000	1,272	1,272	1,272
Other Revenue	0	0	0	0	0
Total	427,409	626,636	427,331	626,076	626,076
<u>Operating Expenses</u>					
Power	73,827	73,827	75,768	75,768	75,768
Other Volume Related	3,860	3,860	3,860	3,860	3,860
Employee Labor	34,120	34,120	24,120	24,120	24,120
Materials	11,460	11,460	11,460	11,460	11,460
Contract Work	20,890	20,890	20,890	20,890	20,890
Transportation Expense	4,730	4,730	4,730	4,730	4,730
Other Plant Maintenance	6,730	6,730	6,730	6,730	6,730
Office Salaries	32,500	32,500	32,500	32,500	32,500
Management Salaries	61,200	61,200	61,200	61,200	61,200
Employee Pen. & Ben.	26,670	26,670	26,170	26,170	26,170
Uncollectible Expense	0	0	0	0	0
Office Services & Rentals	18,000	18,000	18,000	18,000	18,000
Office Supplies Expense	4,100	4,100	4,100	4,100	4,100
Professional Services	5,260	5,260	5,260	5,260	5,260
Insurance	12,914	12,914	12,914	12,914	12,914
Regulatory Comm. Exp.	4,470	4,470	4,470	4,470	4,470
General Expense	1,838	1,838	1,838	1,838	1,838
Total Operating Expense	322,579	322,579	314,010	314,010	314,010
Depreciation Expense	71,690	71,690	67,698	67,698	67,698
Other Than Income Tax	31,200	31,200	31,200	31,200	31,200
Income Taxes	800	62,200	800	67,276	67,276
Total Deductions	426,269	487,669	413,708	480,184	480,184
Utility Operating Income	1,140	138,967	13,623	145,892	145,892
Interest Expense	23,304	23,304	23,304	23,304	23,304
Net Income	(22,164)	115,663	(9,681)	122,588	122,588
RATE BASE					
Average Plant	2,167,178	2,167,178	1,973,559	1,973,559	1,973,559
Avg. Accum. Deprec.	922,084	922,084	904,194	904,194	904,194
Net Plant	1,245,094	1,245,094	1,069,365	1,069,365	1,069,365
Add: Materials	0	0	3,800	3,800	3,800
Working Cash	0	0	0	0	0
Construction In Progress	0	0	100,000	100,000	100,000
Less: Contributions	6,413	6,413	6,413	6,413	6,413
Advances	8,875	8,875	8,875	8,875	8,875
Rate Base	1,229,806	1,229,806	1,157,877	1,157,877	1,157,877
Rate Of Return	+0.09%	+11.3%	+1.18%	+13.0%	+12.6%

APPENDIX B
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FULTON WATER COMPANY

Schedule No. 1A
ANNUAL GENERAL METERED SERVICE
(continued)

SPECIAL CONDITIONS

(L)

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a 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.
2. The charge for water used may be billed monthly, bi-monthly, or quarterly, at the option of the utility.
3. The opening bill for metered service, except upon conversion from flat rate 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 credited against the charges for the succeeding annual period in which service is taken. 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.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

**APPENDIX B
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FULTON WATER COMPANY**

**Schedule No. 2RA
ANNUAL RESIDENTIAL FLAT RATE SERVICE**

APPLICABILITY

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

TERRITORY

An area located approximately one mile southeast of Carnelian Bay, Lake Tahoe,
Placer County.

RATES

For a single-family residential unit, including premises	Per Service Connection	
	<u>Per Year</u>	
Served through a 3/4 inch service	\$ 685.45	(I)
1 inch service	\$1,144.70	(I)
1-1/2 inch service	\$2,282.55	(I)
For each additional single-family residential unit on the same premises and served from the same connection	\$479.82	(I)

(Continued)

APPENDIX B
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FULTON WATER COMPANY

Schedule No. 2RA
ANNUAL RESIDENTIAL FLAT RATE SERVICE
(continued)

SPECIAL CONDITIONS

(L)

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule 1A, Annual General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the metered service charge for the same period shall be made on or before that day.
2. The annual flat rate 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 flat rate charges in advance at intervals of less than one year (monthly, bi-monthly, or quarterly) in accordance with the utility's established billing periods. A non-permanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.
3. The opening bill for flat rate service shall be the established annual flat rate 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 credited 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 charge shall be due the customer.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
5. A one-time surcharge shall be imposed upon flat rate customers to collect the difference (N) between the new January-to-June flat rate charge and the interim flat rate charge for that | period. The surcharge shall be \$214.81 for ¾ inch services, \$360.86 for 1 inch services, | \$760.11 for 1-1/2 inch services, and \$152.08 for each additional single-family residential | unit on the same premises and served from the same connection. (N)

APPENDIX C
FULTON WATER COMPANY
COMPARISON OF RATES
TEST YEAR 2008

METERED RATES	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Difference</u>	
Quantity Rate, per 100 cu. Ft.	\$2.22	\$1.586	- 29.5%	
Service Charge				
For 5/8 x 3/4 in.	\$324.42	\$252.85	-22.06%	
For 3/4 in.	\$444.65	\$379.28	-14.70%	
For 1 in.	\$506.24	\$632.12	+24.87%	
For 1-1/2 in.	\$1,338.72	\$1,264.25	- 5.56%	
For 2 in.	\$1,480.88	\$2,022.80	+36.59%	
For 3 in.	\$1,599.34	\$3,792.75	+137.14%	
For 4 in.	\$1,777.05	\$6,321.25	+255.72%	
FLAT RATES		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Difference</u>
For a single-family residential unit served through a 3/4 inch service		\$ 459.16	\$ 685.45	49.3%
1 inch service		\$ 764.72	\$1,144.70	49.7%
1-1/2 inch service		\$1,528.23	\$2,282.55	49.4%
For each additional single-family residential unit on the same premises and served from the same connection		\$ 319.75	\$ 479.82	50.1%

**APPENDIX D
FULTON WATER COMPANY
ADOPTED QUANTITIES
TEST YEAR 2008**

Purchased Power		\$75,768
Vendor		Sierra Pacific Power Company
Schedule		A-1 Small General Service
Composite Rate		\$0.14965/kWh
Total Power Consumption in kWh		375,753 kWh
Property Tax		\$12,404
Management Salary		\$61,200
Service Connections		
Metered		0
Flat Rate	3/4inch	870
	1 inch	12
	1-1/2 inch	7
	Additional Units	<u>21</u>
		910
Fire Hydrants		54
Income Tax Calculations		
Operating Revenue		\$626,076
Operating Expenses		(\$314,010)
Depreciation		(\$ 67,698)
Other Than Income Taxes		(\$ 31,200)
Net Revenue		\$213,168
Interest Expense		(\$ 23,304)
Income before State Tax		\$189,864
State Income Tax		(\$ 15,949)
Income before FIT		\$173,915
Federal Income Tax		\$ 51,327
Total Income Taxes		\$ 67,276