

WATER/FLC/SNR/MRB/AJT/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4676
February 28, 2008

R E S O L U T I O N

(RES. W-4676), POINT ARENA WATER WORKS, INC. (Point Arena). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING AN INCREASE OF \$30,974 OR 15.23% PRODUCING GROSS ANNUAL REVENUES OF \$234,314 IN TEST YEAR 2007.

SUMMARY

By Draft Advice Letter filed on July 20, 2006, Point Arena requested an increase of \$40,155 or 19.74% in annual gross revenue for Test Year (TY) 2007. This resolution grants Point Arena a general rate increase in gross annual revenues of \$30,974 or 15.23%. This will result in a rate of return of 13.25%.

Point Arena's present rates became effective on January 11, 2007, by Res. No.W-4627, which authorized an interim rate increase producing an increase in gross annual revenues of \$20,000 or 10% relative to 2005 gross annual revenues.

A staff report was issued in September 2007. On October 18, 2007, Point Arena officials met with the Division of Water and Audits' (Division) Water and Sewer Advisory Branch (Branch) in a settlement meeting to discuss the difference in expenses between the Point Arena's request and the recommendations in the staff report. Appendix A includes a Summary of Earnings with the agreed upon expenses derived at the meeting.

BACKGROUND

By advice letter, Point Arena, a Class D water utility, requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase water revenue for Point Arena by \$40,155 or 19.74% for Test Year (TY) 2007 over the utility's estimate of present rates. The purposes of the rate increase are to: (a) fund needed improvements to the existing water system; (b) provide better on-site customer service; and (c) provide the owner of the utility with a return on equity commensurate with financial risk taken. Point Arena's present rates became effective on January 11, 2007 by Res. No.W-4627, which authorized an interim rate increase producing an increase in

gross annual revenues of \$20,000 or 10% relative to 2005 gross annual revenues. Interim rates provided Point Arena with sufficient income to pay operating expenses pending the processing of the utility's general rate case (GRC). The interim increase is subject to refund or increase pending approval of final GRC rates adopted by this resolution.

The last general rate increase for Point Arena was granted on September 2, 2004 per Decision (D.) 04-09-025 which authorized an increase in annual revenues of \$70,137 or 56.9% for test year 2002 with a 13% rate of return on rate base. The total revenues granted for test year 2002 was \$184,665.

Point Arena is a corporation owned by William Hay providing water service to 193 metered connections in the City of Point Arena and vicinity and Whiskey Shoals Subdivision Units 1, 2, and 3, Mendocino County.

Point Arena has two system areas. System No. 1 serves the entire City of Point Arena. Water is pumped from three wells. Well No. 1 is approximately 350 feet south of the Garcia River, Well No. 2 is 250 feet from Well No. 1, and Well No. 3 is located on Riverside Drive east of the main storage tanks. Well No. 2 and Well No. 3 are standby wells that only produce a couple of gallons per minute. A 15 horsepower submersible pump produces water from Well No. 1. The water travels through an 8-inch PVC line and then through a 6-inch PVC line to the 125,000-gallon storage tank where chlorine is added for coliform removal. The water then enters into a 285,000-gallon main storage tank and then is distributed to a 125,000-gallon tank for zone 1 which comprises all of the downtown area and the Arena Cove.

Zone 2, the entire uptown area and the east side of Point Arena where the Industrial Park is located, gets its water from the 125,000-gallon tank with two 15-horsepower booster pumps. One booster pump at the Bed Rock shop ensures adequate pressure. A fire pump located at the main storage tank provides adequate water for fire protection.

System No. 2 is at Whiskey Shoals located two miles south of Point Arena on the west side of Highway 1. It serves a small subdivision. There are two low volume wells and one 22,000-gallon storage tank to serve this area.

Point Arena has a total of 47,160 feet distribution service line, including Whiskey Shoals, ranging from 1-1/2-inch to 12-inch in diameter.

NOTICE , PROTESTS, AND PUBLIC MEETINGS

A notice of the full increase request of \$40,155 or 19.75% was mailed to customers on November 3, 2006. The notice also indicated that due to the current negative cash flow

condition in Point Arena, the Commission may authorize an interim increase in rates subject to refund or adjustment upon completion of the general rate case.

The Service Guarantee Plan for Small Water Companies (Standard Practice U-9-SM) as augmented by Res. No. W-4540, dated June 16, 2005, Ordering Paragraph No. 3, allows an interim rate increase for small water companies operating at a loss on a cash-flow basis. The interim rate increase provides the utility with sufficient income to cover its operating expenses. It is subject to refund or increase pending Commission-approved final GRC rates.

Point Arena is currently operating at a loss. The rate increase request was based on financial information for the period from January through December 2005. After an analysis of these records, the UAFCB has determined that Point Arena should be allowed an interim increase of \$20,000 or 10% relative to 2005 gross revenues in order for the utility to meet its cash-flow requirements.

A public meeting was held on November 30, 2006 and was attended by approximately ten members of the public including four customers present. The balance of the meeting consisted of comments and questions by the customers.

Notice of the public meeting was mailed to customers 20 days prior to the meeting date. The meeting was scheduled on a Thursday evening to ensure maximum public participation since many of the customers work during the weekday hours.

DISCUSSION

The Branch made an independent analysis of Point Arena's summary or earnings. Appendix A shows Point Arena's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates for Test Year 2007. The final column shows the recommended rates by the Branch.

Appendix B includes Branch recommended tariff rates. Appendix D includes Branch recommended adopted quantities.

UAFCB completed a cash flow analysis of Point Arena and recommended a 10% interim rate increase which became effective on January 11, 2007 by Res. No. W-4627.

A staff report was issued in September 2007. On October 18, 2007, Point Arena officials met with the Branch in a settlement meeting to discuss the difference in expenses between the Point Arena's request and the recommendations in the staff report. Appendix A includes a Summary of Earnings with the agreed upon expenses derived at the meeting.

During this meeting, the rent pertaining to the Point Arena Waterworks site (Water Works Main Distribution Tank Property) was resolved. The property in question is a 3.74-acre portion of Mendocino County Assessor's Parcel Number 027-131-04, which is zoned as Public Facilities. This land is owned by Mr. and Mrs. Hay and they have been maintaining the property and paying property taxes on this parcel. Point Arena requested \$13,750 rent annually. The agreed upon rent for this parcel is \$6,875 per year. In addition, other properties, including the Garcia Well site, were settled upon at reasonable fair market value in accordance with the lease agreements with the property owners.

In D.92-03-093, effective April 30, 1992, the Commission adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and Class D utilities. When applying the operating ratio method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, and an operating margin.

Ordering Paragraph 8 of D.92-03-093 states Branch is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission that rate method that produces the higher result. However, during the settlement meeting discussed above, Point Arena and staff agreed upon applying a rate of return of 13.25% on rate base, yielding net revenue of \$45,515 in the summary of earnings.

A comparison of customers bills at present rates (based on the Interim Rates which became effective on January 30, 2007 by Res. No. W-4627) and recommended rates is shown in Appendix C. The Adopted Quantities are shown in Appendix D.

COMPLIANCE

Point Arena has no outstanding Commission compliance orders requiring system improvements. In addition, Point Arena has been filing annual reports as required and the tariff schedules in its tariff book are up to date. However, Point Arena needs to update the following: 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; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service

Res. No. W-4540 dated June 16, 2005, states that at the completion of the general rate case application, the authorized but not collected revenues shall be adjusted for the cash flow revenues received by the utility and the difference recovered by surcharge or refunded by surcredit. Point Arena should be authorized to file an advice letter to

collect these uncollected revenues from January 30, 2007, the effective date of interim rates to the effective date of the rates authorized in this resolution.

COMMENTS

Public Utilities Code (PU Code) §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. PU Code §311(g)(2) provides that this 30-day period may be waived or reduced upon stipulation of all parties in the proceeding. The 30-day comment period for the draft resolution was neither waived nor reduced.

A draft resolution was mailed to parties on January 29, 2008.

Comments were received from the Point Arena Water Works, Inc. and the City of Point Arena.

Comments of Point Arena Water Works, Inc. (PAWW)

PAWW filed the following comments in support of Draft Res. W-4676 as follows:

"Point Arena Water Works, Inc. (PAWW) has received a copy of Draft Resolution W-4676. PAWW appreciates the opportunity to comment on Draft Resolution W-4676, which was issued after PAWW officials met with the California Public Utilities Commission (Commission), water branch staff on October 18, 2007. At the time PAWW provided a great deal of information, documents, and evidence to support the amounts adopted by Resolution W-4676, which were mutually agreed upon by PAWW and the Commission staff at the October 18, 2007 meeting.

Point Arena Water Works, Inc. agrees with Draft Resolution W-4676 and requests its prompt approval."

Comments of the City of Point Arena (City)

The City commented that resolution provides no supporting evidence to substantiate the \$71,305 difference between the Branch Recommended Rates in the Staff Report and Settled Rates including contract work, transportation expense, office salaries, management salaries, office service and rentals, and electrical expenses.

During the October 18th meeting, PAWW provided the staff with information and documents to support the recommended amounts in this resolution. All of the expense items were reviewed and the recommended amounts in the summary of earnings are reasonable.

The City commented that the draft resolution is based on ratebase that is false.

During the October 18th meeting, PAWW provided the staff with information and documents to support the recommended ratebase in this resolution.

The City commented on Ordering Paragraph No. 4 which authorizes PAWW to file an advice letter to recover by surcharge the authorized, but not collected revenues from January 30, 2007, the effective date of the interim rates. The City states that this additional surcharge will have ratepayers compensating the water company, retroactively to the beginning of 2007.

Ordering Paragraph No. 4 is in compliance with Res. No. W-4540 dated June 16, 2005, which states that at the completion of the general rate case application, the authorized but not collected revenues, shall be adjusted for the cash flow revenues received by the utility and the difference recovered by surcharge or refunded by surcredit.

The City commented that the draft resolution find no compliance issues and yet finds the Water Works Main Distribution Property is owned by Mr. and Mrs. Hay.

The staff has reviewed the legal matters addressed in D.97-09-097 pertaining to all of the interests in real property of PAWW and finds that the Water Works Main Distribution Property was not part of PAWW and therefore finds no violations of this order.

The Division analyzed the comments and determined that no changes were required to be made to the draft resolution.

FINDINGS

1. The Division's recommended summary of earnings (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. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. Point Arena should be required to update the following: 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; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code, Section 454, for Point Arena Water Works, Inc. (Point Arena) to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and

- B, respectively, and concurrently to cancel its presently effective rate Schedule No. 1, General Metered Service. The effective date of the revised schedule shall be five days after the date of filing.
2. Point Arena is authorized to increase annual revenues by \$30,974 or 15.23%. This results in Test Year 2007 revenue of \$234,314.
 3. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
 4. At the completion of this general rate case, Point Arena is authorized to file an advice letter to recover by surcharge the authorized, but not collected revenues from January 30, 2007, the effective date of the interim rates.
 5. Point Arena is ordered to update the following: 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; 20, Water Conservation; and 21, Fire Protection; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.
 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 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
POINT ARENA WATER WORKS

Summary of Earnings-Test Year 2007

<u>Category</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended Rates</u>	
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	<u>At Present Rates</u>	<u>Settled Rates Rate of Return</u>
<u>Operating Revenues:</u>						
Flat Rate	0	0	0	0	0	0
Metered	203,340	243,495	203,340	243,495	203,340	234,314
Private Fire Protection	0	0	0	0	0	0
Total	203,340	243,495	203,340	243,495	203,340	234,314
<u>Operating Expenses</u>						
Purchased Water	0	0	0	0	0	0
Purchased Power	12,198	13,677	13,677	13,677	13,677	13,677
Purchased Chemicals	0	0	0	0	0	0
Other Volume Related Expenses	626	669	669	669	669	669
Employee Labor	5,592	6,415	6,415	6,415	6,415	6,415
Materials	10,751	3,358	3,358	3,358	3,358	3,358
Contract Work	11,298	11,963	11,963	11,963	11,963	11,963
Water Testing	2,094	2,355	2,355	2,355	2,355	2,355
Transportation Expense	5,660	8,270	8,270	8,270	8,270	7,640
Other Plant Maintenance Expense	7,023	22,120	22,120	22,120	22,120	15,638
Office Salaries	7,971	28,334	28,334	28,334	28,334	25,000
Management Salaries	18,578	22,785	22,785	22,785	22,785	21,500
Employee Pension and Benefits	0	0	0	0	0	0
Uncollectibles	2,259	2,780	2,780	2,780	2,780	2,648
Office Service & Rentals	19,886	6,824	6,824	6,824	6,824	6,500
Office Supplies & Expenses	5,055	5,405	5,405	5,405	5,405	5,000
Professional Services	24,203	12,000	12,000	12,000	12,000	12,000
Insurance	8,067	8,293	8,293	8,293	8,293	7,752
Regulatory Commission Exp.	88,509	4,000	4,000	4,000	4,000	4,000
General Expenses	1,204	1,635	1,635	1,635	1,635	1,635
minus expenses capitalized					0	
Total Operating Expenses	230,974	160,883	160,883	160,883	160,883	147,750
<u>Total Deductions</u>						
Depreciation Expense	11,320	9,753	9,753	9,753	9,753	9,753
Property Taxes	3,540	5,464	5,464	5,464	5,464	5,464
Payroll Taxes	0	4,342	4,342	4,342	4,342	4,342
Taxes other than Income	10,499	3,210	3,210	3,210	3,210	3,210
States Income Tax	N/A	N/A	N/A	N/A	N/A	6,506
Federal Income Tax	N/A	13,930	13,930	13,930	13,930	11,774
Total Deductions	25,359	36,699	36,699	36,699	36,699	41,049
Total Deductions and Expenses		197,582	197,582	197,582	197,582	188,799
Net Revenue	-52,993	45,913	5,758	45,913	5,758	45,515
Rate Base:						
Average Plant	1,229,682	1,343,682	1,343,682	1,343,682	1,343,682	1,343,682
Average Depr. Res.	388,353	414,087	414,087	414,087	414,087	414,087
Net Plant	841,329	929,595	929,595	929,595	929,595	929,595
Less: Advances/Contributions	563,370	547,389	547,389	547,389	547,389	547,389
Add: Supplies/working Cash	13,425	13,425	13,425	13,425	13,425	13,425
Rate Base	291,384	395,631	343,508	343,508	343,508	343,508
		25.00%	1.68%	13.37%	1.68%	13.25%

Rate of Margin / Rate of Return

**APPENDIX B
POINT ARENA WATER WORKS, INC.**

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service

TERRITORY

The City of Point Arena and vicinity and Whiskey Shoals Subdivision Unit Nos. 1, 2, & 3, Mendocino County.

RATES

Quantity Rates:

All water, per 100 cubic feet \$ 5.66 (I)

Service Charge:

	Per Meter	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 41.42	(I)
For 3/4-inch meter	\$ 62.13	
For 1-inch meter	\$ 103.54	
For 1-1/2-inch meter	\$ 207.08	
For 2-inch meter.....	\$ 331.33	
For 3-inch meter.....	\$ 621.25	
For 4-inch meter.....	\$1035.42	
For 6-inch meter.....	\$1035.42	(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 Rates.

SPECIAL CONDITIONS

1. In addition to the above rates and charges rendered to all bills under this Schedule, a surcharge will be added as set forth in Schedule No. 2-X, General Metered Surcharge.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

3. Point Arena Associates and Wharf Masters Inn will be charged the 4-inch meter charge pursuant to Resolution No. W-4233
4. In addition to the above rates and charges rendered to all bills under this schedule, a surcharge in the amount of \$2.98 per month will be charged to each customer for a period of 6 years from the effective date of Advice Letter No. 49-A. This surcharge is specifically for the recovery of expenses established by the memorandum account authorized by Res. W-4356, dated October 24, 2002, and the Joint Stipulation attached to D.04-09-025, dated September 2, 2004.

APPENDIX C

POINT ARENA WATER WORKS, INC.

COMPARISON OF RATES

Test Year 2007

Service Charges for 5/8 x 3/4-inch meter:

Per Service Connection Billed Monthly

	Present	Recommended			
		<u>Rates</u>	<u>Rates</u>	<u>\$ Increase</u>	<u>% Increase</u>
For 5/8 x 3/4	\$35.45	\$41.42	\$5.97	16.8%	

Quantity Charge for all meter sizes:

	<u>Present Rate*</u>		<u>Recommended Rate</u>	<u>% Increase</u>
All water delivered per 100 cu. ft.	\$4.85		\$5.66	16.7%

Average monthly customer bill at present and authorized rates for a 5/8 x 3/4-inch meter service using various quantities of water.

Usage	Present	Recommend		
100 cu. ft.	<u>Rates</u>	<u>Rates</u>	<u>\$ Increase</u>	<u>% Increase</u>
0	\$ 35.45	\$ 41.42	\$ 5.97	16.8%
5	\$ 59.70	\$ 69.72	\$10.02	16.8%
11	\$ 88.80	\$103.68	\$14.88	16.8%
15	\$108.20	\$126.32	\$18.12	16.7%
20	\$132.45	\$154.62	\$22.17	16.7%
30	\$180.95	\$211.22	\$30.27	16.7%

APPENDIX D
(Page 1 of 2)

POINT ARENA WATER WORKS, INC.

Adopted Quantities
Test Year 2007

Expenses:

1. Purchased power (Electric)

Vendor Pacific Gas & Electric Company
Schedules Schedule A-1 Small General Service

Effective Date January 1, 2006

2. Composite Rate \$0.1721/kWh

Total Power Consumption in kWh 79,468 kWh
Total Purchased Power (\$) \$13,677

3. Number of Service Connections:

Metered Rate
5/8 x 3/4-inch service 169
3/4-inch service 7
1-inch service 9
2-inch service 6
4-inch service 0
6-inch service 2

Total Service Connections 193

4. Water Sales (Ccf) - Metered Customers: 15,035

APPENDIX D
(Page 2 of 2)

POINT ARENA WATER WORKS, INC.

Test Year 2007

TAX CALCULATIONS

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$234,314	\$234,314
2.	O&M Expenses	\$147,750	\$147,750
3.	Taxes Other than Income	\$ 3,210	\$ 3,210
4.	Depreciation	\$ 9,753	\$ 9,753
5.	Taxable Income for State Tax	\$ 73,601	
6.	State Tax	\$ 6,506	
7.	Taxable Federal Income Tax		\$ 67,095
8.	Federal Income Tax		\$ 11,774
9.	Total Income Tax		\$ 18,280

California Corporate Franchise Rate 8.84%

Federal Income Tax Rate:

15%

\$7,500 + 25%

On first \$50,000 of taxable income

Of the amount over \$50,000

Resolution W-4676
Point Arena/DRAFT AL/FLC/SNR/MRB/AJT/jlj

February 28, 2008