

WATER/RSK/SRW/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4687
May 15, 2008

R E S O L U T I O N

**(RES. NO. W-4687), CAZADERO WATER COMPANY (Cazadero).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$39,493 OR
86.8% IN TEST YEAR 2007**

SUMMARY

By Draft Advice Letter filed on October 29, 2007, and accepted by the Water and Sewer Advisory Branch staff (Staff) on November 16, 2007, Cazadero requested an increase of \$40,000 or 92.9% in annual gross revenues based on revenues for 2006 for test year 2007. This resolution grants Cazadero a general rate increase of \$39,493 or 86.8% for test year 2007. This will result in a return of margin of 20%.

Cazadero's present rates became effective December 10, 2007, on an interim basis to produce an increase of \$2,153 or 5% relative to 2006 gross annual revenues.

BACKGROUND

By advice letter, Cazadero, a Class D water utility, requested authority under Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$40,000 or 92.9% over 2006 revenues for test year 2007. Cazadero's present rates became effective on December 10, 2007, on an interim basis to produce an increase of \$2,153 or 5% relative to 2006 gross annual revenues. Interim rates provided Cazadero with sufficient income to pay operating expenses pending the processing of the utility's general rate case. The interim increase is subject to refund or increase pending approval of final general rate case rates adopted by this resolution.

The last general rate case for Cazadero was granted January 12, 2006, pursuant to Res. No.W-4582 which authorized a rate increase of \$18,362 or 57.83% in test year 2005 for a return of margin of 19.8 %.

Cazadero serves 156 customers (3 flat rate and 153 metered). About one-third of the customers are owners of summer cabins. Cazadero is located within the town of Cazadero in Sonoma County. Loren Berry is the owner of the water company. James

Berry has the water treatment and distribution licenses required to run the water system. Cazadero is a community water system that consists of three concrete storage tanks with a storage capacity of 160,000 gallons and a 5,000-gallon polypropylene holding tank, a distribution system of steel pipes two-inches and under, and four wells: two horizontal wells near the top of a mountain, one vertical well with a five horsepower pump and a capacity of 18 gallons per minute and a second vertical well with a seven and one-half horsepower pump and a capacity of 20 gallons per minute. All water is treated with chlorine.

NOTICE , PROTESTS, AND PUBLIC MEETINGS

A notice of the full increase request of \$40,000 or 92.9% was mailed to customers on November 28, 2007. The notice also indicated that due to the current negative cash-flow condition, the Commission may authorize an interim increase in rates which may be 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. The interim increase is subject to refund or increase pending Commission approved final general rate case rates.

Cazadero is currently operating at a loss. The interim rate increase request was based on Cazadero's 2006 Annual Report. The Utility Audit, Finance and Compliance Branch (UAFCB) made an analysis of these records and determined that Cazadero should be allowed an interim increase of \$2,153 or 5% relative to 2006 gross revenues in order for the utility to meet its cash-flow requirements.

Notice of the public meeting was mailed to customers 20 days prior to the meeting date. The meeting was scheduled on a Tuesday evening at the Cazadero Fire Hall in Cazadero to ensure maximum public participation.

The public meeting was held on December 18, 2007, and was attended by approximately eleven residents. Staff explained the process of the rate increase request before the Commission. Cazadero representatives reviewed their rate increase request. Staff and Cazadero representatives responded to various questions from the attendees.

Staff received two letters from customers who own summer cabins objecting to the rate increase.

DISCUSSION

The Staff made an independent analysis of Cazadero's operations. Appendix A shows Cazadero's and the Staff's estimates of the Summary of Earnings at present, requested, and the Division of Water and Audits (Division) recommended rates for test year 2007. Cazadero is in agreement with the Summary of Earnings at the Division's recommended rates shown in Appendix A.

The Division recommended tariff rates are shown in Appendix B.

Staff reviewed operating revenues and expenses including purchased power, employee labor, materials, water testing, transportation expenses, other plant maintenance, office salaries, management salaries, office supplies and rentals, office supplies and expenses, professional services, insurance, general expenses, depreciation and taxes other than income. Staff verified the operating expenses and revenues by reviewing the 2006 and 2007 recorded data and included the amounts that were deemed reasonable and prudent. Based on 2007 recorded data, Staff determined average plant in service, accumulated depreciation, and materials and supplies for test year 2007. Staff based working cash allowance on one-twelfth of total operating expenses.

The UAFCB recommends a rate of return from 12.85% to 13.85% for a Class D, 100% equity financed utility and a rate of margin of 20% for Class D water utilities. 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. No.W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and Class D water utilities using the rate of return and rate of margin methods. The Division must recommend the method that produces the higher revenues pursuant to Commission D.02-03-093, effective April 30, 1992. In the rate of margin method, the utility's revenue requirements is defined as the sum of its operating expenses, depreciation, and taxes other than income taxes, multiplied by the rate of margin. A comparison of the two methods indicates that the rate of margin method produces a higher revenue requirement. The Division recommends the rate of margin method.

Cazadero's rate structure consists of two schedules: Schedules Nos. 1A, General Metered Service, and 2A, Annual General Flat Rate Service. At the recommended rate of margin the increase in revenues will be \$39,493 or 86.8% for test year 2007. A comparison of customer bills at present rates (effective January 25, 2006) and recommended rates is shown in Appendix C. The Adopted Quantities and Tax Calculations are shown in Appendix D.

COMPLIANCE

Cazadero has no outstanding Commission compliance orders. Cazadero has been filing annual reports as required and most of the tariff schedules in its tariff book are up to date. Cazadero needs to update the following: Preliminary Statement; Rules 3, Application for Service; 5, Special Information Required on Forms; 10, Disputed Bills, and Forms 2, Customer's Deposit Receipt, and 3, Bill for Service.

Resolution 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 credit. Cazadero should be authorized to file an advice letter to collect these uncollected revenues from December 10, 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 resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. However, 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 waived.

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. Cazadero should be required to update the following: Preliminary Statement; Rules 3, Application for Service; 5, Special Information Required on Forms; 10, Disputed Bills, 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 Cazadero Water Company to file an advice letter incorporating the Summary of Earnings and revised

rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. 1A, General Metered Service, and Schedule No. 1B, Annual General Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.

2. Cazadero is authorized to increase annual revenues by \$39,493 or 86.8%. This results in test year 2007 revenues of \$85,010.
3. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
4. Cazadero is authorized to file an advice letter to recover by surcharge the authorized but not collected revenues from December 10, 2007, the effective date of the interim rates.
5. Cazadero is ordered to update the following: Preliminary Statement; Rules 3, Application for Service; 5, Special Information Required on Forms; and 10, Disputed Bills, 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 May 15, 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					
Cazadero Water Company					
Test Year 2007					
	Utility	Estimated	Staff	Estimated	Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
Operating Revenues					
Metered water revenue	\$11,788	\$22,736	\$11,788	\$22,735	\$22,015
Other water revenue	32,560	62,802	32,560	62,802	60,812
Unmetered water revenue	1,169	2,255	1,169	2,255	2,183
Total Revenue	45,517	87,793	45,517	87,793	85,010
Operating and Maintenance Exp.					
Purchased water					
Power	4,600	4,600	5,000	5,000	5,000
Other volume related exp.				-	
Employee labor	10,000	10,000	10,000	10,000	10,000
Materials	10,000	10,000	5,500	5,500	5,500
Contract work					
Water Testing			2,700	2,700	2,700
Transportation expenses	10,000	10,000	5,000	5,000	5,000
Other Plant Maintenance	5,000	5,000	2,500	2,500	2,500
Office salaries	10,000	10,000	10,000	10,000	10,000
Management salaries	5,000	5,000	5,000	5,000	5,000
Employee pens. & benefits					
Uncollectibles expense					
Office services & rentals	3,600	3,600	3,600	3,600	3,600
Office supplies and expenses	1,000	1,000	1,900	1,900	1,900
Professional services	8,072	8,072	7,000	7,000	7,000
Insurance	1,524	1,524	1,524	1,524	1,524
Regulatory comm. expense			200	200	200
General expenses	10,000	10,000	1,000	1,000	1,000
Total Operating Expenses	78,796	78,796	60,924	60,924	60,924
Depreciation	936	936	930	930	930
Taxes Other than Income	4,437	4,437	5,715	5,715	5,715
State tax	800	800	800	1,788	1,542
Federal income tax	(5,918)	424	(3,428)	2,765	2,385
Total Deductions	79,051	85,393	64,941	72,122	71,496
Net Revenue	(33,534)	2,400	(19,424)	15,671	13,514
RATE BASE:					
Average plant	103,987	103,987	103,987	103,987	103,987
Average accum. dep.	42,891	42,891	42,669	42,669	42,669
Net plant	61,096	61,096	61,318	61,318	61,318
Materials and Supplies	1,000	1,000	1,000	1,000	1,000
Plus working cash	6,566	6,566	5,077	5,077	5,077
Less: Advances					
Contributions					
Rate Base	67,662	67,662	67,395	67,395	67,395
Rate of Return	-49.56%	3.5%	-28.8%	23.25%	20%
Rate of Margin					20%

Appendix B

Cazadero Water Company

Schedule 1A
GENERAL METERED SERVICE

APPLICABILITY

Applicability to all domestic, commercial, and industrial metered water service.

TERRITORY

Cazadero and vicinity, Sonoma County

RATES

Monthly Quantity Rate

Per 100 cu.ft \$ 2.13 (I)

Per Meter
Per Year

Service Charge:

For 5/8x3/4-inch meter.....	\$ 391.78	(I)
For 3/4-inch meter.....	434.51	(I)
For 1-inch meter.....	590.39	(I)
For 1-1/2-inch meter.....	826.29	(I)
For 2-inch meter.....	1,062.57	(I)

The Annual Service Charge is a readiness-to-serve charge which is applicable to all metered service and is in addition to the monthly quantity rates computed at the above quantity rate billed additionally.

SPECIAL CONDITIONS

1. The annual service 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 service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly or quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.
2. 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-five (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 charges shall be due the customer.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

Appendix B

Cazadero Water Company

Schedule 2A

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicability to all flat rate water residential service.

TERRITORY

Cazadero and vicinity, Sonoma County.

RATES

	Per Service Connection <u>Per Year</u>
1. For single family residential unit, including premises	\$ 623.76 (I)
2. For Cazadero Supply	935.72 (I)

SPECIAL CONDITIONS

1. Service under this schedule shall be limited to the premises now being served hereunder as of the effective date of this tariff.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

Appendix D			
Cazadero Water Company			
<u>Adopted Quantities</u>			
Test Year 2007			
1. Purchased Power		\$	5,000
2. Employee Labor		\$	10,000
3. Materials		\$	5,500
4. Water Testing		\$	2,700
5. Transportation Expenses		\$	5,000
6. Other Plant Maintenance		\$	2,500
7. Office Salaries		\$	10,000
8. Management Salaries		\$	5,000
9. Office Services and Rentals		\$	3,600
10. Office Supplies and Expenses		\$	1,900
11. Professional Services		\$	7,000
12. Insurance		\$	1,524
13. Regulatory Commission Expenses		\$	200
14. General Expenses		\$	1,000
15. Depreciation		\$	930
16. Taxes other Than Income		\$	5,715
17. Average Plant		\$	103,987
18. Average Depreciation Reserve		\$	42,669
19. Materials & Supplies		\$	1,000
20. Working Cash Allowance		\$	5,077
21. Rate Base		\$	67,395
<u>Number of Service Connections</u>			
	Metered Rate		
	5/8 x 3/4-inch		151
	3/4-inch		0
	1-inch		1
	1-1/2-inch		0
	2-inch		1
<u>Flat Rate</u>			3
	Total Service Connections		156
	Metered Water Sales		10,034 ccf
<u>Income Tax Calculations</u>			
Test Year 2007			
	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
	Operating Revenues	\$ 85,010	\$ 85,010
	Operating Expenses	\$ 60,924	\$ 60,924
	Depreciation	\$ 930	\$ 930
	Taxes other Than Income	\$ 5,715	\$ 5,715
	State Taxable Income	\$ 17,441	\$ 17,441
	State Tax (@8.84%) Minimum \$800	\$ 1,542	\$ 1,542
	Federal Taxable Income		\$ 15,899.00
	Federal Income Tax-- 15% on first \$50,000 of taxable income		\$ 2,385.00
	Total State and Federal Income Tax		\$ 3,927.00