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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch**

**RESOLUTION W-4688
May 29, 2008**

R E S O L U T I O N

**(RES. W-4688), TIMBERLAND WATER COMPANY (TWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$21,873 OR 29.4% IN 2008.**

SUMMARY

By Draft Advice Letter accepted on December 17, 2007, TWC seeks to increase its rates to recover increases in operating costs and a return on its rate base at an adequate rate of return. For test year 2008, this resolution grants an increase in gross annual revenues of \$21,873 or a system-wide increase of 29.4%. The increase will provide a 13.25% rate of return on a rate base of \$180,485.

SYSTEM DESCRIPTION

TWC provides domestic water service to 118 residential flat rate connections, 16 metered residential customers and, by written agreement, public fire protection water service to 7 fire hydrants. The service territory is in the Timberland Subdivision, three miles south of Tahoe City on Lake Tahoe, Placer County. System maintenance is done by the owner of TWC, or by contract.

TWC's present rates became effective on February 18, 2003 for year 2003 pursuant to Commission Resolution W-4370 of January 16, 2003 granting a general rate increase.

TWC requested authority under Sections 7.2 and 7.3(3) of General Order 96-B and §454 of the Public Utilities Code to increase rates for water service by \$13,000 or 6% in 2008. TWC's request shows 2008 gross revenue of \$76,024 at present rates increasing to \$88,156 at proposed rates.

Summary of Earnings

The Branch made an independent analysis of TWC's summary of earnings. Appendix A shows TWC'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 \$8,309 higher than TWC's because: 1) TWC did not include Federal income tax or sufficient State income tax. Although TWC is owned as an S-Corporation, the Commission views State and Federal corporate income taxes as deductions from water company gross revenue; 2) TWC's estimate of revenue includes the Commission user fee, which it should not; 3) TWC included all contract work as expense, and Branch estimated that \$7,623 of costs listed as contract work would be for new plant in service; and 4) TWC did not request a return on rate base. Branch included a 13.35% return on rate base.

Operating Expenses

Some of the larger expenses listed by TWC were reclassified by the Branch. These include:

Account 620 - Other Volume Related Expenses

TWC estimated \$670 for Other Volume Related Expenses and Branch estimated \$0. TWC agrees that the expenses listed belong in other accounts.

Account 640 - Materials

TWC estimated \$1,830 for materials and Branch estimated \$1,108. The other \$722 was for materials used in new plant in service.

Account 650 - Contract Work

TWC estimated \$16,112 for contract work, and Branch estimated \$8,489. The other \$7,623 was for construction of new plant in service.

Account 688 - Regulatory Commission Expense

TWC estimated \$1,073 per year, the amount TWC reimbursed the Commission in user fees last year. Branch estimated \$0, because the CPUC user fee is not income or expense for ratemaking.

Account 689 - General Expense

TWC estimated \$249 per year for general expense. Branch estimated \$1,052, after reclassification of certain expenses.

Account 409 - Income Taxes

TWC estimated only \$800 per year for income taxes whether or not the company makes a profit. The Branch estimates \$6,800 for State and Federal income taxes.

Ratebase

TWC estimated rate base to be \$169,057. Branch estimates rate base to be \$180,485. Branch shows more average plant in service, more depreciation reserve, and less contributions in aid of construction.

NOTICE TO CUSTOMERS

On February 14, 2008, a Notice of Proposed Rate Increase was mailed to all customers announcing TWC's request to increase water rates by \$15,645 or 19.9% over present rates, and announcing a public meeting for February 29, 2008. Proposed new rate schedules were included.

PUBLIC MEETING

A public meeting was held on February 29, 2008, between 6:30 PM and 8:00 PM in a meeting room of the Tahoe City Public Utility District. Four customers attended. TWC owner John Ballard explained the need for the rate increase, telling of new plant put in service and plans for future improvements. Customer questions were primarily about specific expenditures, and about the CPUC rate case process.

CUSTOMER COMPLAINTS

There were no complaints about water quality or water service. Customer statements focused on the need for better communications from the company, and customer desire to see more detailed information about water company expenses.

RATE DESIGN

At existing rates, the cost of service for the average customer with a 3/4-inch meter is \$584.96 per year, while a flat rate customer with a 3/4-inch connection is charged \$430.00 per year. The rate design proposed by the Branch increases the cost of flat rate service more than metered service, to reduce this disparity.

COST OF CAPITAL

Rate of Return on Rate Base

TWC did not request a return on rate base. Effective March 10, 2008, the Water Division's Utility Audit, Finance, and Compliance Branch (A&C) recommends a rate of return on rate base from 12.75% to 13.75% for 100%-equity-financed Class D water companies [those with less than 500 customers]. TWC is a Class D water company with 129 active customers. The Water and Sewer Advisory Branch of the Water and Audits Division recommends the average rate of return on rate base authorized for a Class C

water company, 13.25%. With a rate base of \$180,485 this would require a net revenue of \$23,914 after expenses and deductions.

Rate of Margin

A&C recommends a rate of margin of 20% for Class D water companies. The rate of margin is a percentage of the sum of operating expenses plus taxes and depreciation. A 20% rate of margin would require \$13,104 in net revenue.

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.

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 April 29, 2008 to all parties for 30 days of public review and comment. Comments were received from one customer on May 14, 2008 concerning the number of customers and other matters. As a result of those comments the rates for flat rate customers were revised.

FINDINGS AND CONCLUSIONS

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.

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

	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Unmetered Revenue	54,000	62,463	52,390	68,803	68,803
Fire Protection Revenue	245	245	245	245	245
Metered Revenue	22,000	25,448	21,724	27,185	27,185
Total Revenue	76,245	88,156	74,359	96,233	96,233
Operating Expenses					
Power	3,564	3,564	3,666	3,666	3,666
Other Volume Related Expenses	670	670	0	0	0
Employee Labor	0	0	0	0	0
Materials	1,830	1,830	1,108	1,108	1,108
Contract Work	16,112	16,112	8,489	8,489	8,489
Water Testing	1,619	1,619	1,700	1,700	1,700
Transportation Expense	1,513	1,513	2,086	2,086	2,086
Other Plant Maintenance	0	0	0	0	0
Office Salaries	5,000	5,000	5,250	5,250	5,250
Management Salaries	24,000	24,000	25,200	25,200	25,200
Employee Pensions and Benefits	0	0	0	0	0
Uncollectable Expense	0	0	0	0	0
Office Services & Rentals	0	0	225	225	225
Office Supplies Expense	4,698	4,698	4,127	4,127	4,127
Professional Services	728	728	656	656	656
Insurance	1,844	1,844	1,936	1,936	1,936
Regulatory Commission Expense	1,073	1,073	0	0	0
General Expense	249	249	1,052	1,052	1,052
Total Operating Expenses	62,900	62,900	55,494	55,494	55,494
Depreciation Expense	8,000	8,000	8,024	8,024	8,024
Taxes Other Than Income Taxes	2,000	2,000	2,000	2,000	2,000
Income Taxes	800	800	2,006	6,800	6,800
Total Deductions	82,590	82,590	67,524	72,318	72,318
Utility Operating Income	(6,345)	5,566	6,835	23,914	23,914
<u>Rate Of Return On Rate Base</u>	-3.75%	3.29%	3.79%	13.25%	13.25%
Rate Of Margin Amount	16,358	16,358	13,104	13,104	13,104
Rate Of Margin Percent	20%	20%	20%	20%	20%

APPENDIX B
Sheet 2

TIMBERLAND WATER COMPANY
TEST YEAR 2008

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Timberland and vicinity, located approximately three miles south of Tahoe City, Placer County.

RATES

	<u>Per Service Connection</u> <u>Per Year</u>	
For each-single-family residential unit, including premises	\$567.67	(I)
For each additional single family residential unit on the same premises and served from the same service connection	\$363.31	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. An additional single family residential unit shall qualify for additional charge only if such a residential unit includes cooking and bathing facilities.
3. For services covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual 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 minimum meter charge for the same period shall be made on or before that day.

(continued)

**APPENDIX C
TIMBERLAND WATER COMPANY
TEST YEAR 2008
COMPARISON OF RATES**

	<u>Previous Rate</u>	<u>New Rate</u>	<u>Percent Increase</u>
METERED RATES			
5/3 X 3/4-inch meter	\$ 250.80	\$ 318.15	26.9%
3/4-inch meter	\$ 375.60	\$ 477.23	27.1%
1-inch meter	\$ 625.80	\$ 795.38	27.1%
1-1/2-inch meter	\$1,251.60	\$1,590.75	27.1%
2-inch meter	\$2,002.80	\$2,545.20	27.1%
3-inch meter	\$3,755.40	\$4,772.25	27.1%
4-inch meter	\$6,258.00	\$7,953.75	27.1%
All water, per 100 cu. ft.	\$ 1.510	\$ 1.857	23.0%
 FLAT RATES			
For each single family residential unit, including premises	\$ 430.00	\$ 567.67	32.0%
For each additional single family residential unit on the same premises and served from the same service connection	\$ 275.00	\$ 363.31	32.1%

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

Property Tax	\$ 1,690
Management Salary	\$25,200

Purchased Power	
Composite Rate	\$0.14955/kWh
Total Power Consumption in kWh	20,142
Total Purchased Power	\$3,276

Service Connections

Metered:	5/8 x 3/4"	0	Flat Rate:	3/4"	118
	3/4"	8		Extra Units	5
	1"	5			
	1-1/2"	0	Public Fire Protection		
	2"	2	Hydrants		7
	3"	1			
	4"	0			
		16			

Income Tax Calculations

Gross Revenue	96,232
Operating Expenses	55,494
Depreciation	8,024
Non-Income Taxes	2,000
Net Income for State Tax	30,714
State Income Tax	2,580
Net Income for FIT	28,134
Federal Income Tax	4,220
Total Taxes	6,800
Net Revenue	23,914

Rate Base

Average Plant	288,165
Avg. Accumulated Depreciation	(103,024)
Net Plant	185,141
Add: Materials	4,000
Working Cash	675
Less: Contributions	(9,331)
Advances	0

Rate Base 180,485