

WATER/RSK/PTL/TS2/ijj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4709
September 18, 2008

R E S O L U T I O N

**(RES. W-4709), KENWOOD VILLAGE WATER COMPANY (KVWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE,
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$24,531 OR
8.42% FOR TEST YEAR 2008.**

SUMMARY

By Draft Advice Letter filed on May 13, 2008, Kenwood Village Water Company seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on May 30, 2008.

For Test Year (TY) 2008, this resolution grants an increase in gross annual revenues of \$24,531 or 8.42% which is estimated to provide a rate of return of 12.90%.

BACKGROUND

Kenwood Village Water Company, a Class D water utility, has requested authority under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by 13.74% or \$38,473 for TY 2008. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. KVWC's requests shows 2008 gross revenues of \$279,973, increasing to \$318,446 at proposed rates. KVWC is requesting a rate of return of 13.04%.

The present rates were established on June 15, 2008 by approval of a Consumer Price Index (CPI) increase producing revenues for TY 2008 totaling \$11,600, or a 4.1% increase. The last general rate increase was granted on December 14, 2003, pursuant to Res. W-4443, which authorized a rate increase of \$42,240, or 22.6%, resulting in a rate of return on rate base of 12.65% for test year 2003.

KVWC serves Kenwood Village, an unincorporated area approximately eight miles southeast of Santa Rosa, Sonoma County. KVWC is owned by James Downey and

Kathleen Downey who also own Penngrove and Canon Manor Water Companies as part of the Altos Sonoma Corporation. James Downey provides overall management and engineering services. Karen Ball, who manages the day-to-day operations, is assisted by an office employee whose primary function is that of a billing clerk. Karen Ball is responsible for accounts receivable, billings, banking, bookkeeping, and customer relations. Two plant operators are responsible for plant, equipment, and pipe maintenance along with water quality and control and meter reading. Approximately 33% of each person's time is devoted to work involving KVWC, while the other 67% is devoted to Penngrove Water Company and other operations.

Kenwood Village resident income levels are in the middle income range. Although many of KVWC's customers are in the work force, quite a few of them are retirees. KVWC currently provides metered rate service to 304 residential customers, and one commercial customer, the Kenwood Inn. KVWC serves the inn under a separate tariff with a cost-to-serve agreement established in 1994. KVWC currently serves the inn by a 4-inch connection to the Sonoma County Water Agency Aqueduct with a 2-inch meter.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on or prior to June 17, 2008. The Division and KVWC received one letter opposed to the rate increase. The letter also expressed concern about comparable rates with other similar utilities. KVWC responded promptly to the letter and shared its response with the Division.

An informal public meeting was held on Wednesday, July 9, 2008, at the Kenwood Village Firehouse located in Sonoma County. The meeting started at 7:00 PM with ten customers in attendance. The Branch representative, Terence Shia, explained Commission procedures, as well as the purpose of the meeting. Mr. Downey made a presentation to explain the need for the rate increase while handing out KVWC's 2007 Consumer Confidence Report. In his presentation, Mr. Downey provided examples of the cost to run the utility and the quality of service provided to KVWC's customers. The rest of the meeting consisted of comments and questions by the customers. Most of the questions and comments were general in nature and dealt with KVWC's revenues, expenses, investments and requested increase. One customer indicated that the requested increase was too high due to salary expenses. The meeting adjourned at 8:30 PM with applause from a few customers who wanted to thank KVWC for the quality of service that they provide.

DISCUSSION

The Division made an independent analysis of KVWC's operations. Appendix A shows KVWC's and the Division's estimated summary of earnings at present, proposed, and

recommended rates for test year 2008. KVWC is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses including purchased water, purchased power, volume related expenses, employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, management salaries, employee benefits, uncollectibles, office service and rentals, office supplies and expenses, professional services, 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 Division staff audited actual bills for expenses to make its estimates, and also used different inflation rates than KVWC, who used an inflation rate of 5% across all expenses. Based on the Office of Ratepayer Advocates memorandum of May 31, 2008, the Division uses a non-labor inflation rate of 5.4% and a labor inflation rate of 2.9% for the appropriate operating expense. For the Insurance category, the Division uses the current CPI inflation factor of 4.1%.

KVWC has requested a rate of return of 13.04%. KVWC, at 304 service connections for TY 2008, would ordinarily be considered a Class D water utility, however when combined with Altos Sonoma Corporation which also owns Penngrove Water Company with over 450 customers, is considered a Class C water utility for rate-making purposes. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12% to 13% for a Class C, 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 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. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. Utility Audit, Finance and Compliance Branch (UAF&CB) has recommended a rate of margin of 19% for Class C water utilities. A comparison of the two methods indicates that at 12.90% rate of return, the high end of what the UAF&CB recommends, the rate of return method produces a higher revenue requirement; therefore, the Division recommends the rate of return method.

KVWC's current rate structure consists of three schedules: 1, General Metered Service, Schedule No. 2, Cost-to-Serve Agreement, and 4, Private Fire Protection Service, which are all proposed to increase. Schedule 2 was especially created to accommodate serving Kenwood Inn in 1994. KVWC serves the inn from a 4-inch turnout on the Sonoma County Water Agency Aqueduct. The rates proposed by the Branch are shown in Appendix B. At the recommended rate of return the increase in revenue will be \$24,531 or 8.42% for TY 2008.

To promote water conservation, KVWC has complied with specific objectives in accordance with the CPUC's Water Action Plan (WAP) including implementing a rate-making mechanism and rate design, such as increasing block rates, to encourage conservation and efficient water use. KVWC has proposed a two tier rate structure for their quantity charge in their Schedule No. 1, General Metered Service. The first tier is priced at \$2.039/Ccf (One Ccf is equal to 100 cubic feet) up to 5 Ccf, while the second tier is priced at \$2.37/Ccf for more than 5 Ccf, and the Division concurs.

KVWC requested changes in their facilities fees schedule for new service connections in order to fund construction that will take place over the next 10 years. Division recommends the implementation of the revised Schedule F, Facilities Fees, and to fund new plant and replacement of existing plant. Division recommends funds collected should be placed in interest-bearing accounts and be used only to build or replace plant. Facilities fees shall be accounted for as Contributions-in-aid-of-Construction, and the balance shall be reported in Kenwood's annual reports to the Commission. The plant constructed with facilities fees shall be removed from rate base. This new rate schedule is in Appendix B.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8-inch metered customer using 17 Ccf would increase from \$67.69 to \$79.15 or 16.9%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The Adopted Quantities and tax calculations are shown in Appendix D.

COMPLIANCE

KVWC has no outstanding compliance orders. The utility has been filing annual reports as required. The California Department of Public Health (DPH) performed the last annual inspection of KVWC in August 2003. The findings were that the system has no major deficiencies. Janice Oakley from the DPH confirmed that KVWC has not had any major compliance issues except for one small issue in 2007 when one sample for nitrate in one well was missing, but KVWC responded quickly by preparing the sample at that time and issuing the proper public notification. As such, DPH considers KVWC to be in compliance with all applicable water quality regulations and standards.

The Division recommends that KVWC also needs to update its Service Area Map to reflect changes in its service territory since the last GRC in 2003, and the following tariff rules: 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; and Form 2, Form for Customer's Deposit Receipt; and 3, Form for Bill for Service.

COMMENTS

This is an uncontested matter in which the resolution grant 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 summary of 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 the Division's recommendations are reasonable and should be adopted.
4. KVWC needs to update its Service Area Map and the following tariff rules: 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; and Forms 2, Form for Customer's Deposit Receipt; and 3, for Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Kenwood Village 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 1, General Metered Service, 2, Cost-to-Serve Agreement, and 4, Private Fire Protection Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Kenwood Village Water Company is authorized to increase its annual revenues by \$24,531 or 8.42% for test year 2008.
3. KVWC shall update its Service Area Map and the following: Rules 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

4. 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 September 18, 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					
Kenwood Water Company					
Summary of Earnings					
Test Year 2008					
Item	Utility Estimated		Branch Estimated		Recommended
	Present Rates	Requested Rates	Present Rates	Requested Rates		Rates (ROR)
Operating Revenue					
General Metered Sales	\$ 277,255	\$ 303,291	\$ 277,255	\$ 303,291	\$ 300,584
Commercial Water Sales	\$ 11,811	\$ 12,613	\$ 11,811	\$ 12,613	\$ 12,763
Private Fire	\$ 530	\$ 780	\$ 530	\$ 780	\$ 780
Other Water Revenue	\$ 1,493	\$ 1,493	\$ 1,493	\$ 1,493	\$ 1,493
Other Unmetered Revenue	\$ 269	\$ 269	\$ 269	\$ 269	\$ 269
	\$ 291,358	\$ 318,446	\$ 291,358	\$ 318,446	\$ 315,889
Operating Expenses					
610 Purchased Water	\$6,247	\$6,247	\$ 6,247	\$ 6,247	\$ 6,247
615 Purchased Power	\$13,958	\$13,958	\$ 13,958	\$ 13,958	\$ 13,958
618 Other Volume Related Expenses	\$660	\$660	\$ 635	\$ 635	\$ 635
630 Employee Labor	\$34,056	\$34,056	\$ 34,056	\$ 34,056	\$ 34,056
640 Materials	\$2,477	\$2,477	\$ 2,486	\$ 2,486	\$ 2,486
650 Contract Work	\$9,911	\$9,911	\$ 9,713	\$ 9,713	\$ 9,713
Water Testing	\$4,845	\$4,845	\$ 4,748	\$ 4,748	\$ 4,748
660 Transportation Expenses	\$5,912	\$5,912	\$ 5,912	\$ 5,912	\$ 5,912
664 Other Plant Maintenance	\$526	\$526	\$ 528	\$ 528	\$ 528
670 Office Salaries	\$17,369	\$17,369	\$ 17,369	\$ 17,369	\$ 17,369
671 Management Salaries	\$39,386	\$39,386	\$ 39,386	\$ 39,386	\$ 39,386
674 Employee Benefits	\$25,032	\$25,032	\$ 24,532	\$ 24,532	\$ 24,532
676 Uncollectibles Expense	\$260	\$260	\$ 260	\$ 260	\$ 260
678 Office Services & Rentals	\$3,620	\$3,620	\$ 3,620	\$ 3,620	\$ 3,620
681 Office Supplies & Expenses	\$5,289	\$5,289	\$ 5,309	\$ 5,309	\$ 5,309
682 Professional Services	\$2,802	\$2,802	\$ 2,884	\$ 2,884	\$ 2,884
684 Insurance	\$9,319	\$9,319	\$ 8,898	\$ 8,898	\$ 8,898
689 General Expenses	\$4,700	\$4,700	\$ 1,244	\$ 1,244	\$ 1,244
Subtotal	\$ 186,369	\$ 186,369	\$ 181,785	\$ 181,785	\$ 181,785
Depreciation	\$ 13,801	\$ 13,801	\$ 13,743	\$ 13,743	\$ 13,743
Taxes other than Income	\$ 9,865	\$ 9,865	\$ 9,865	\$ 9,865	\$ 9,865
Income Taxes	\$ 30,599	\$ 42,599	\$ 32,634	\$ 44,660	\$ 43,524
Total Deductions	\$240,634	\$252,634	\$238,027	\$250,052	\$248,918
Net Revenue	\$50,724	\$65,812	\$53,331	\$68,394	\$66,971
Rate Base					
Average Plant	\$ 843,742	\$ 843,742	\$ 843,705	\$ 843,705	\$ 843,705
Ave. Accumulated Depreciation	\$ 186,067	\$ 186,067	\$ 186,278	\$ 186,278	\$ 186,278
Net Plant	\$ 657,675	\$ 657,675	\$ 657,427	\$ 657,427	\$ 657,427
<u>Less</u> Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	\$ 170,081	\$ 170,081	\$ 170,071	\$ 170,071	\$ 170,071
<u>Plus</u> Working Cash	\$ 15,234	\$ 15,234	\$ 29,134	\$ 29,134	\$ 29,134
Materials & Supplies	\$ 2,318	\$ 2,318	\$ 2,318	\$ 2,318	\$ 2,318
Construction Work in Progress	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Rate Base:	\$ 505,446	\$ 505,446	\$ 519,108	\$ 519,108	\$ 519,108
Rate of Return	10.04%	13.02%	10.27%	13.18%	12.90%

(END OF APPENDIX A)

APPENDIX B
Kenwood Water Company
Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service

TERRITORY

The unincorporated area known as Kenwood Village, immediately north of Kenwood, Sonoma County.

RATES

<u>Quantity Rates:</u>	<u>Per Meter Per Month</u>	<u>SDWBA Surcharge Per Meter/Per Month</u>
First 500 cu. ft. of water, per 100 cu. ft.	\$ 2.039 (I)	
Over 500 cu. ft. of water, per 100 cu. ft.	\$ 2.370 (N)	
 <u>Service Charge:</u>		
For 5/8 x 3/4-inch meter	\$ 38.86 (I)	\$ 9.02
For 3/4-inch meter	\$ 58.29 (I)	\$ 13.53
For 1-inch meter	\$ 97.15 (I)	\$ 22.55
For 1-1/2-inch meter	\$ 194.29 (I)	\$ 45.10
For 2-inch meter	\$ 305.51 (I)	\$ 72.16
For 3-inch meter	\$ 582.87 (I)	\$ 135.30
For 4-inch meter	\$ 971.46 (I)	\$ 225.50

The Service Charge is a readiness-to-serve charge which is applicable to all metered services and to which is added the water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to reimbursement as set forth in Schedule No. UF.

(D)

(continued)

APPENDIX B
Kenwood Village Water Company
Schedule No. 2
Cost To Serve Agreement

APPLICABILITY

Kenwood Inn

TERRITORY

10400 Sonoma Highway, Kenwood, Sonoma County, California 95452

RATES

Quantity Rates:	<u>Per Meter Per Month</u>	<u>Purchased Water Balancing Account Surcharge Per Meter/Per Month</u>
For all water, per 100 cu. ft.	\$ 3.017 (I)	
Service Charge:		
For 2-inch meter:	\$ 138.27 (I)	\$ 0.25 (N)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to reimbursement as set forth in Schedule No. UF.

(D)

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APPENDIX B
Kenwood Village Water Company
Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

The unincorporated area known as Kenwood Village, immediately north of Kenwood, Sonoma County.

RATE

	Per Meter <u>Per Month</u>
For each inch of diameter	\$ 2.50 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility with the cost thereof paid by the applicant, not subject to refund.
2. A service main from the nearest main of adequate capacity shall be installed by the utility and the cost paid by the applicant, not subject to refund.
3. Service is for private fire protection systems to which no connections other than fire protection purposes are allowed and are maintained to the satisfaction of the utility. The utility may install standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water, and the cost paid by the applicant.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.
5. Any unauthorized use of water, other than for fire extinguishing purposes, shall be charged for at the regular established rates as set forth under Schedule No. 1 and/or may be the grounds for the immediate disconnection of the service without liability to the company.
6. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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APPENDIX B
Kenwood Village Water Company
Schedule No. F
FACILITIES FEE

APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, or for additional service connections to existing premises, and for increases in size of service connections to existing premises, and for increases in size of service connection due to a change in size.

TERRITORY

This schedule is applicable within the entire territory served by the Utility.

RATES

Initial Fee for each Service Connection:

For 5/8 x 3/4 inch meter	.....	\$ 2,000
For 3/4-inch meter	.....	\$ 3,000
For 1-inch meter	.....	\$ 5,000
For 1-1/2 inch meter	.....	\$ 10,000
For 2-inch meter	.....	\$ 16,000
For 3-inch meter	.....	\$ 24,000
For 4-inch meter	.....	\$ 32,000

SPECIAL CONDITIONS:

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. Payments made under this schedule are not subject to reimbursement as set forth in Schedule No. UF.
3. Facilities fees authorized herein shall be deposited within ten days of receipt in a separate bank account paying interest.
4. Facilities fees shall be treated as Contributions-in-Aid-of-Construction as specified in the Internal Revenue Code Section 118 to qualify as such.
5. Facilities fees shall be accounted for as Contributions-in-Aid-of-Construction in accordance with the Commission's prescribed Uniform System of Accounts. In addition the balance of facilities fees collected, including interest shall be reported in utility's annual report to the Commission. The plant constructed with facilities fees shall be removed from rate base.
6. The Utility shall annually report facilities fees collected, utilized and the remaining account balance, including interest. This report shall accompany the submission of the Utility's Annual Report.

(END OF APPENDIX B)

APPENDIX C
Kenwood Village Water Company
Test Year 2008

COMPARISON OF RATES:

METERED SERVICE	Per Service Connection Per Month:		
	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
For 5/8 x 3/4- inch meter	\$ 35.07	\$ 38.86	10.8%
For 3/4 inch	\$ 51.64	\$ 58.29	12.9%
For 1 - inch meter	\$ 68.22	\$ 97.15	42.4%
For 1 1/2 inch meter	\$ 101.34	\$ 194.29	91.7%

A monthly bill comparison for a customer with a 5/8 x 3/4 - inch meter is shown below:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$35.07	\$38.86	\$ 3.79	10.8%
10	54.26	62.56	8.30	15.3%
17 (avg.)	67.69	79.15	11.46	16.9%
20	79.21	93.37	14.16	17.9%
30	92.64	109.96	17.32	18.7%

(END OF APPENDIX C)

APPENDIX D

Kenwood Village Water Company
Adopted Quantities -Test Year 2008

Purchased Power

Pacific Gas & Electric Co.

Schedule A-6 for Well #2 & A-10 for Well #1

Effective Date February 2008

Pumped Water	Recorded Year CcF	Recorded Year %	Test Year CcF	Recorded Year KWH	Recorded Year KWH Per CcF	Test Year KWH	Rate/ KWH	Energy Cost	Annual Service Charge	Other Charges	Total Cost
Well #1	56,241	94%	59,322	\$ 576	0.010	\$ 607.55	\$ 0.12	\$ 75	1,439	175	\$ 12,702
Well #2	3,367	6%	3,787	\$ 90	0.027	\$ 101.23	\$ 0.09	\$ 9	235	18	\$ 1,256
Total:	59,608	100%	63,109	\$ 666	0.037	\$ 708.78	\$ 0.22	\$ 84	1,674	193	\$ 13,958

Service Connections

Meter Size	Number of Customers
5/8 x 3/4 inch meter	292
3/4 inch meter	1
1 inch meter	6
1 1/2 inch meter	0
2 inch meter	5
Commercial - 2 inch meter	1
Total	305
Private Fire Protection	
6- inch diameter	3
8- inch diameter	1

Water Sales, CcF (Sch. No.1): 61,799
 Water Sales, CcF (Sch. No.2): 3,692
 Total Annual Consumption, CcF: 65,491

Purchased Water

	CCF	Current Charge per AF	Current Charge per CCF	Sub-Total	
Sonoma County Water Agency	3,692	\$ 613.35	\$ 1.41	\$ 5,199	
Meter Charges				\$ 1,044	
				\$ 6,243	Total

Tax Calculations

Operating Revenues \$ 315,889
 Expenses \$ 181,785
 Depreciation \$ 13,743
 Taxes other than Income \$ 9,865
 Taxable Income for State \$ 110,496
 State tax \$ 9,768
 Taxable Income for Federal \$ 100,728
 Federal tax \$ 33,756

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