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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

**RESOLUTION NO. W-4708
September 18, 2008**

R E S O L U T I O N

**(RES. W-4708), LITTLE BEAR SEWER COMPANY (Little Bear).
ORDER AUTHORIZING A GENERAL RATE INCREASE TO
PRODUCE ADDITIONAL ANNUAL REVENUE OF \$123,416 OR 55.4%
IN TEST YEAR 2007.**

SUMMARY

Little Bear, a Class D sewer utility, has requested a general rate increase for test year 2007. This resolution authorizes an increase of \$123,416 or 55.4%, relative to revenues at present rates, for a 13.35% return on rate base for test year 2007.

BACKGROUND

Little Bear, a Class D sewer 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 sewer rates by \$122,867¹ for test year 2007 for a 13.25% return on rate base. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return on plant investment. This resolution authorizes an increase in revenues of \$123,416 or 55.4% for a 13.35% return on rate base.

Little Bear currently serves 393 sewer customers in the Royal Estates subdivision and vicinity, located approximately 3 miles southwest of King City in Monterey County. Little Bear's last general rate increase became effective on December 11, 2001, pursuant to Res. W-4312, which authorized an increase of \$39,145 or 24.1%, and a rate of return of 13.25%. Little Bear's present rates became effective on June 12, 2007, pursuant to Res. W-4649, which authorized a 2.4% increase to keep pace with the Consumer Price Index (CPI).

¹ The requested increase as shown on the public notice mailed by Little Bear to its customers on June 14, 2007 was \$120,941. The amount of increase requested by Little Bear should have been the \$122,867 shown in the filing workpapers.

Little Bear's sewage treatment facilities consist of four ponds. Raw sewage first flows into a 1.3-million gallon primary treatment pond equipped with two aerators, where the raw sewage is digested by both aerobic and anaerobic bacteria during an average 14-day holding time. The effluent from the primary stage then flows into a 1.4-million gallon secondary treatment pond (also known as a polishing pond) equipped with one aerator, where the bacteria further digests the organic matter during a treatment time lasting an average of 8 days. The effluent from the secondary pond then partially drains into an 180,000-gallon non-aerated transfer pond, where the effluent is then pumped uphill to a 1.2-million gallon non-aerated effluent storage pond. The effluent from the storage pond is then discharged by sprinklers over a grassy spray field, where the vegetation utilizes the treated sewage as nutrients. On a quarterly basis, solid waste sediments are also pumped from the ponds and transferred to the grass field for disposal.

NOTICE, PROTESTS, AND PUBLIC MEETING

A notice of the proposed rate increase was mailed by Little Bear to its customers on June 14, 2007. The Division of Water and Audits (Division) staff and Little Bear representatives held a public participation meeting on July 9, 2007, in King City in a joint session for its water and sewer customers. There were 43 customers representing at least 39 households in attendance at the meeting. The Division's staff explained to the participants Commission rate-setting procedures, while Little Bear's representatives cited justifications for the proposed rate increase.

The remainder of the meeting consisted of comments and questions by the customers. The Division received no protests specifically addressing the proposed increase in sewer rates.

DISCUSSION

Little Bear Water Company and Little Bear Sewer Company are two distinct entities that are owned by the same interest. While distinct, they have the benefit of sharing some expenses (e.g. salaries, transportation, insurance, etc.). This allows the customers of both companies to pay a smaller percentage of some of the expenses than had each one of the companies been separate.

Payroll expenses increased quite substantially since the 2001 general rate case, due in part to inflation, in part to the hiring of additional employees to run the operation, and in part to the change in allocation percentage of payroll expenses to the sewer operation. Beginning in 2007, the percentage of payroll expenses allocated to the sewer operation increased from 30% to 35% to more accurately reflect the amount of labor resources spent on the sewer operation. Other common expenses are allocated to water

and sewer operations based on the number of customers, direct expenses, and rate base, resulting in an allocation of 60% to water and 40% to sewer.

The Division performed an independent analysis of Little Bear's summary of earnings. Appendix A shows Little Bear's and the Division's estimates of the Summary of Earnings for test year 2007. The rate increase requested in this general rate case was driven primarily by the significant capital expenditures in 2006 and 2007, as well as the increase in payroll expenses.

The capital expenditures in 2006 and 2007 were as follows:

Year 2006

Sewer pumps, aerators, and other sewer plant	\$30,000
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Year 2007

1. Two 15 HP floating aerators to improve the utility treatment process and to provide backup in case of equipment failure.	\$46,000
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2. One 50 HP generator to provide auxiliary power source to the transfer pumps and aerators in case of a power failure. It will ensure that the treatment plant is fully operational at all times.	\$85,000
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3. SCADA system upgrades to monitor treatment quality and pumping status. Includes emergency notification of system failure, and/or possible spill or overflow.	\$7,000
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4. CCTV systems to meet federal and state requirements under the new SSO program, which requires semi-annual or annual vision inspection of sewer distribution pipeline.	\$16,000
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5. Purchase of pre-treatment equipment to improve the utility sewer treatment process. To reduce solids, reduce treatment process and remove solid matter.	\$48,000
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Total 2007	\$202,000
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This resolution authorizes an increase of \$123,416, or 55%, in revenue for a 13.35% return on rate base for test year 2007. Appendix D shows the rate impact for a typical customer. Appendix E shows the adopted quantities.

Rate of Return on Rate Base

The Division annually publishes recommended rates of return for Class C and Class D water and sewer utilities. For 2007, the Division recommends that a Class D sewer utility should earn a rate of return from 12.85% to 13.85%. For a utility with no serious customer complaints or serious violations of the Commission's rules and regulations, the Division recommends that the middle of the range, in this case 13.35%, be selected.

Facilities Fees

A Facilities Fee is a connection charge for new customers that can be used to build new infrastructure or replace or repair existing infrastructure. Facilities fee revenues are not to be used for operation and maintenance (O&M) expenses and can not be booked to retained earnings. Facilities fees collected are to be placed in interest bearing accounts and to be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.

Little Bear requests implementation of a facilities fee for new services. The Commission currently has no set standard for calculating the appropriate facilities fees for sewer service. Little Bear estimates that \$1,400,000 will be spent on new sewer infrastructures between 2007 and 2022, stated in constant 2007 dollars. Little Bear estimates that 528 new customers will be added in this timeframe. This results in an estimated sewer facilities fee of \$2,700 in 2007 dollars.

Facilities fees are established to minimize the degree to which existing customers will subsidize new customers. Due to the potentially significant time lag between the establishment of the initial facilities fees and the eventual plant expenditures needed to serve the new customers, the Division recommends that Little Bear be ordered to file inflation adjustments to the initial facilities fees at the same time that it files CPI rate adjustments.

COMPLIANCE

Little Bear is currently providing sewer service to its customers according to the standards of General Order 103. Little Bear has been filing annual reports with the Division. There have been no customer complaints against Little Bear for at least the past three years and there are no outstanding Commission orders requiring system improvements.

However, Little Bear Sewer Company needs to update the following: Preliminary Statement; Rules 1, Definitions; 2, Description of Service; 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices, 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 12, Information Available

to Public; 13, Temporary Service; 14, Continuity of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; 17, Measurement of Service; 18, Meter Tests and Adjustment of Bills for Meter Error; 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; 20, Limitation on Wastes Discharged into the Utility's Sewer System; and 21, Commercial, Institutional, and Industrial Wastes; and Forms 1, Application for Sewer Service; 2, Customer's Deposit Receipt; and 3, Bill for Service in its tariff book.

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. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

Due to the absence of any customer protests, this general rate increase is treated as an uncontested matter. Accordingly, pursuant to Public Utilities Code Section 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) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The facilities fee recommended by the Division (Appendix C) is reasonable and should be adopted.
4. The quantities (Appendix E) used to develop Division's recommendations are reasonable and should be adopted.
5. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
6. The amount of increase authorized herein is justified and the resulting rates are just and reasonable.
7. Little Bear Sewer Company should file for Consumer Price Index adjustments to the facilities fees at the same time it files for Consumer Price Index adjustments to the sewer service rates.

8. Little Bear Sewer Company should be required to update the following: Preliminary Statement; Rules 1, Definitions; 2, Description of Service; 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices, 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 12, Information Available to Public; 13, Temporary Service; 14, Continuity of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; 17, Measurement of Service; 18, Meter Tests and Adjustment of Bills for Meter Error; 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; 20, Limitation on Wastes Discharged into the Utility's Sewer System; and 21, Commercial, Institutional, and Industrial Wastes; and Forms 1, Application for Sewer Service; 2, Customer's Deposit Receipt; and 3, Bill for Service in its tariff book.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code, Section 454, for Little Bear Sewer Company to file an advice letter to incorporate the Summary of Earnings (Appendix A), the revised rate schedule (Appendix B), and to establish a new facilities fee schedule (Appendix C), and concurrently to cancel its presently effective rate Schedule No. SS-1, Residential Sewer Service. The effective date of the revised rate schedule shall be 5 days after the date of filing.
2. Little Bear Sewer Company is authorized to increase annual revenues by \$123,416 or 55.4%, for a rate of return of 13.35% on rate base for test year 2007. This results in test year 2007 revenue of \$346,200.
3. The quantities (Appendix E) used to develop the Division's recommendations are adopted.
4. Little Bear Sewer Company is required to file advice letters to request Consumer Price Index adjustments to its facilities fees at the same time it files for Consumer Price Index adjustments to its sewer service rates.
5. Little Bear Sewer Company is required to update the following: Preliminary Statement; Rules 1, Definitions; 2, Description of Service; 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices, 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 12, Information Available to Public; 13, Temporary Service; 14, Continuity of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; 17, Measurement of Service; 18, Meter Tests and Adjustment of Bills for Meter Error; 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; 20,

Limitation on Wastes Discharged into the Utility's Sewer System; and 21, Commercial, Institutional, and Industrial Wastes; and Forms 1, Application for Sewer Service; 2, Customer's Deposit Receipt; and 3, Bill for Service in its tariff book.

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 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

**Summary of Earnings
 Test Year 2007**

<u>Account</u>	<u>Category</u>	<u>Utility Estimated</u>		<u>Division Estimated</u>		<u>Division Recommended Rates</u>
		<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
<u>Operating Revenues:</u>						
	Sewer Revenues	\$ 221,424	\$ 344,291	\$ 222,784	\$ 344,291	\$ 346,200
<u>Operating Expenses</u>						
610	Purchased Water	-	-	-	-	-
615	Purchased Power	25,200	25,200	27,390	27,390	27,390
	Purchased Chemicals	-	-	-	-	-
618	Other Volume Related Expenses	-	-	-	-	-
630	Employee Labor	38,449	38,449	38,449	38,449	38,449
640	Materials	4,837	4,837	5,006	5,006	5,006
650	Contract Work	11,010	11,010	11,870	11,870	11,870
	Water Testing	-	-	-	-	-
660	Transportation Expense	6,974	6,974	8,662	8,662	8,662
664	Other Plant Maintenance Expense	5,385	5,385	5,042	5,042	5,042
670	Office Salaries	15,786	15,786	15,786	15,786	15,786
671	Management Salaries	22,150	22,150	22,150	22,150	22,150
674	Employee Pension and Benefits	11,230	11,230	11,230	11,230	11,230
676	Uncollectibles	962	962	962	962	962
678	Office Service & Rentals	3,840	3,840	3,840	3,840	3,840
681	Office Supplies & Expenses	4,824	4,824	5,824	5,824	5,824
682	Professional Services	4,931	4,931	4,836	4,836	4,836
684	Insurance	12,090	12,090	12,200	12,200	12,200
688	Regulatory Commission Exp.	2,900	2,900	2,900	2,900	2,900
689	General Expenses	3,442	3,442	4,009	4,009	4,009
800	minus expenses capitalized	-	-	-	-	-
	Franchise fees	-	-	-	-	-
	Total Operating Expenses	\$ 174,010	\$ 174,010	\$ 180,157	\$ 180,157	\$ 180,157
<u>Total Deductions</u>						
403	Depreciation	\$ 21,425	\$ 27,470	\$ 27,470	\$ 27,470	\$ 27,470
408	Taxes other than Income	21,860	24,317	21,887	24,317	24,355
	Interest	-	-	-	-	-
	Total Deductions	\$ 43,285	\$ 51,787	\$ 49,357	\$ 51,787	\$ 51,825
Total Deductions and Expenses						
		\$ 217,295	\$ 225,797	\$ 229,514	\$ 231,944	\$ 231,982
Net income before taxes						
		\$ 4,129	\$ 118,494	\$ (6,730)	\$ 112,347	\$ 114,218
Income Taxes						
		\$ 44,883	\$ 44,883	\$ 800	\$ 33,123	\$ 33,954
Net Revenue						
		\$ (40,754)	\$ 73,611	\$ (7,530)	\$ 79,223	\$ 80,264
Rate Base:						
	Average Plant	\$ 1,043,235	\$ 1,043,235	\$ 1,043,235	\$ 1,043,235	\$ 1,043,235
	Average Depr. Res.	\$ (377,362)	\$ (377,362)	\$ (377,362)	\$ (377,362)	\$ (377,362)
	Net Plant	\$ 665,873	\$ 665,873	\$ 665,873	\$ 665,873	\$ 665,873
	Less: Advances/Contributions	\$ (64,685)	\$ (64,685)	\$ (64,685)	\$ (64,685)	\$ (64,685)
	Add: Materials and Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
Rate Base						
		\$ 601,188	\$ 601,188	\$ 601,188	\$ 601,188	\$ 601,188
Rate of Return						
		-6.78%	12.24%	-1.25%	13.18%	13.35%

Appendix B

Little Bear Sewer Company

Schedule No. SS-1

RESIDENTIAL SEWER SERVICE

APPLICABILITY

Applicable to all residential sewer service.

TERRITORY

Royal Estates Unit No. 3 and vicinity, Monterey County

RATES

	Per Service Connection <u>Per Month</u>
For a single-family residential unit	\$ 73.41 (I)
For each additional single-family residential unit on the same premise, and served from the same service connection.....	\$ 73.41 (I)

SPECIAL CONDITIONS

1. The above rates apply to a service connection not larger than 4 inches in diameter.
2. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

Appendix C

Little Bear Sewer Company

Schedule SS-F

FACILITIES FEES

APPLICABILITY

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

TERRITORY

Royal Estates Unit No. 3 and vicinity, Monterey County

RATES

Initial fee for each Service Connection: \$ 2,700 (N)

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 the reimbursement fee set forth in Schedule No. UF.
3. Facilities Fees authorized herein shall be deposited within five days of receipt in a separate bank account paying interest. A direct confirmation from the bank shall be mailed to the of Director of the Divison of Water and Audits after making such deposit to verify the amount deposited.
4. Facilities Fess shall be treated as Contributions-in-Aid-of-Construction and follow the requirements as specified in the Internal Revenue Code Section 118 to qualify as such.
5. Facillities fees shall be accounted as Contributions-in-Aid-of-Construction in accordance with the Commission's prescribed Uniform System of Accounts. In addition to the balances collected, including interest shall be reported in the utility's annual report.
6. The plant constructed with facillities fees shall be removed from rate base for rate-making purposes.

Appendix D
Little Bear Sewer Company

Comparison of Rates

	<u>Present Monthly Charge</u>	<u>Division Recommended Monthly Charge</u>	<u>Percent Increase</u>
Single family unit	\$47.24	\$73.41	55.4%
Additional unit on same connection	\$47.24	\$73.41	55.4%

Appendix E
Little Bear Sewer Company

Adopted Quantities
Test Year 2007

Power usage in kilowatt-hours (kWh) per service connection

Summer		
	Peak	49
	Partial peak	53
	Off-peak	119
Winter		
	Part peak	94
	Off-peak	148
Number of Active Connections		393

Incomes Taxes

Income before Interest and Expense	\$	114,218
Interest Expense	\$	-
State Taxable Income	\$	114,218
State Income Tax	\$	10,097
Federal Taxable Income	\$	104,121
Federal Income Tax	\$	23,857
Total State and Federal Income Taxes	\$	33,954