

WATER/RSK/FLC/PTL/AAS/ijj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

**RESOLUTION NO. W-4740
January 29, 2009**

R E S O L U T I O N

(RES. W-4740), KLEIN HOMES WATER COMPANY (KLEIN HOMES). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL REVENUES OF \$6,566 OR 18.1% FOR TEST YEAR 2008.

SUMMARY

By Draft Advice Letter filed on March 12, 2007, Klein Homes seek 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 1, 2007.

This resolution grants an increase of \$6,566 or 18.1%, for total 2008 test year (TY) revenue of \$42,945 with a resulting a rate of margin of 20%.

BACKGROUND

Klein Homes, 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 48% or \$12,500 for test year 2008. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Klein Homes' request shows 2007 gross revenues of \$26,025, increasing to \$38,525 at proposed rates. Even with this increase, Klein Homes' request would have resulted in a negative net income.

The present rates were established on November 30, 2008, pursuant to Advice Letter No. 4, which authorized a 39.6% interim increase in revenues. The last general rate increase was granted on June 21, 1995, pursuant to Res. W-3921, which authorized a rate increase of \$17,103 or 268%, based on a rate of margin of 20%.

Klein Homes serves a street on the border of the City of San Jose in Santa Clara County, and the utility is owned by Wilma Pribyl. Wilma Pribyl provides overall management, engineering, maintenance services, accounts receivable, billings, banking, bookkeeping, and customer relations.

Klein Homes currently provides metered rate service to 18 customers who all are full-time residents. The number of customers is not expected to change

substantially in the upcoming years, so Klein Homes estimates no additional customers for TY 2008.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on June 12, 2007.

An informal public meeting was held on July 19, 2007, in San Jose. Seven customers attended the meeting. The Division staff explained Commission procedures, as well as the purpose of the meeting. The rest of the meeting consisted of comments and questions by the customers. Most of the questions and comments were general in nature. The Division staff and Klein Homes' representative responded to various questions from the attendees. One letter of protest was received relating to the increase being higher than their neighbors who are served by the San Jose Water Company.

DISCUSSION

The Division made an independent analysis of Klein Homes' operations. Appendix A shows Klein Homes' and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2008. Klein Homes is in agreement with the summary of earnings and the Division's recommended rates shown in Appendices A and B.

The Division staff reviewed operating revenues and expenses including purchased power, other volume related expenses, contract work, transportation expenses, other plant maintenance, management salaries, 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.

Klein Homes has requested an increase of 48% in revenues. The Division's Utility Audit, Finance and Compliance Branch (UAFCB) recommend a rate-of-return from 12.75% to 13.75% for a Class D, 100% equity-financed utility. Two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return (ROR) and (2) Rate of Margin (ROM). 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 ROR and ROM methods. Both methods are to be used. Per Decision 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the ROM method, the utility's revenue requirements is defined as the sum of its operating and maintenance expenses, depreciation, and income and other taxes, multiplied by the ROM. 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".

At a ROR of 13.25% the increase in revenue would be \$3,659 or 10.1%, for total revenue of \$40,038. UAFCB has recommended a ROM of 20% for Class D water utilities. At the recommended ROM of 20%, the increase in revenue will be \$6,566 or 18.1%, for total revenue of \$42,945. A comparison of the two methods indicates that the ROM method produces a higher revenue requirement. Therefore, the Division recommends the ROM method.

Klein Homes' current rate structure consists of one schedule: 1, General Metered Service. The rates proposed by the Division are shown in Appendix B.

At the Division's recommended rates shown in Appendix B, the monthly bill for a ¾ inch metered customer using 13.8 Ccf (One Ccf is equal to one hundred cubic feet) of water would increase from \$101.39 to \$119.81 which is \$18.42, or 18.2% in test year 2008. A comparison of customer bills at interim and recommended rates is shown in Appendix C. The Adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

Klein Homes has no outstanding compliance orders. The utility has been filing annual reports as required. The utility receives all its water from San Jose Water Company. Therefore, the California Department of Public Health does not perform an inspection of Klein Homes' water quality. The Division recommends that Klein Homes update the following tariff rules and forms: Rule 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; and 10, Disputed Bills; and Forms 2, Customer Deposit Receipt; and 3, 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. Klein Homes Water Company should update the following tariff rules and forms: Rule 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; and 10, Disputed Bills; and Forms 2, Customer Deposit Receipt; and 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Klein Homes 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 Schedule No. 1, General Metered Service. The effective date of the revised rate schedule shall be five days after the date of its filing.
2. Klein Homes Water Company is authorized to increase its annual revenues by \$6,566 or 18.1%, for test year 2008.
3. Klein Homes Water Company shall update the following tariff rules and forms: Rule 5, Special Information Required on Forms; 7, Deposits; 9, Rendering and Payment of Bills; and 10, Disputed Bills; and Forms 2, Customer 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 January 29, 2009; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH
JOHN A. BOHN

Resolution W-4740
Klein Homes/DRAFT AL/RSK/FLC/PTL/AAS/jlj

January 29, 2009

RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

Appendix A						
Klein Homes Water Company						
Summary of Earnings						
Test Year 2008						
Item	Utility Estimated		Branch Estimated			
	1995 Rates	Requested Rates	Interim Rates	ROR Rates	ROM Rates	
Operating revenues						
Unmetered water revenue						
Metered water revenue	26,025	38,525	36,379	40,038	42,945	
Other water revenue						
Total Operating Revenue	26,025	38,525	36,379	40,038	42,945	
Operating expenses						
Purchased water	13,872	13,872	13,872	13,872	13,872	
Contract work	1,667	1,667	1,667	1,667	1,667	
Transportation expenses	1,688	1,688	1,688	1,688	1,688	
Other plant maintenance expense	576	576	576	576	576	
Management salaries	1,500	15,354	7,677	7,677	7,677	
Office services and rentals	1,833	1,833	1,833	1,833	1,833	
Office supplies and expense	3,328	3,328	3,328	3,328	3,328	
Professional services	895	895	895	895	895	
Insurance	0	0	0	0	0	
Regulatory commission expense	370	370	370	370	370	
General expenses	366	366	366	366	366	
Total Operating Expenses	26,095	39,949	32,272	32,272	32,272	
Depreciation expense	1,764	1,764	1,764	1,764	1,764	
Taxes other than income taxes	254	254	254	254	254	
State income tax expense	65	65	65	800	800	
Federal income tax expense	524	524	524	628	997	
Interest						
Total Deductions	2,607	2,607	2,607	3,446	3,815	
Net Income	(2,677)	(4,031)	1,500	-	6,858	
Rate of Margin formula:						
Opr Revenue = O&M + Depreciation + Income Tax + Other Tax + ROM (O&M + Depreciation + Other Tax)						
Opr Revenue =	\$ 42,945					
Rate of Return formula:						
ROR =	Net Revenue / Rate Base					
ROR =	13.25%					
Rate Base =	Avg Plant - Avg Depreciation + Cash = \$ 32,605					
Net Revenue =	\$ 4,320					
=						
=	Operating Revenue - O&M - Deductions					
Opr Revenue =	\$ 40,038					

(END OF APPENDIX A)

APPENDIX B
Klein Homes Water Company
Schedule No. 1
GENERAL METERED SERVICE
Year 2008

APPLICABILITY

Applicable to all metered water service

TERRITORY

The area known as in and near the vicinity of Klein Homes Road and Murillo Avenue, located on the border of the City of San Jose, Santa Clara County.

RATES

Quantity Rates:

All Water, per 100 cu. ft.	\$3.30	(I)
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Service Charge:

	<u>Per Meter</u>	
	<u>Per Month</u>	
For ¾ inch meter	\$ 74.27	(I)
For 1-inch meter	\$123.82	
For 1- ½ inch meter	\$247.33	
For 2-inch meter	\$395.87	(I)

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. A late charge will be imposed per Schedule LC.
2. In accordance with Section 2174 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or the property owner.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C
Klein Homes Water Company
Comparison of Rates

Test Year 2008

Per Service Connection Per Month

<u>Service Charge</u>	<u>Interim Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For ¾ inch meter	\$ 62.89	\$ 74.27	18.1%
For 1-inch meter	\$104.84	\$123.82	18.1%
For 1- ½ inch meter	\$209.42	\$247.33	18.1%
For 2-inch meter	\$335.20	\$395.87	18.1%
Quantity Charge:			
All use, per 100 cu. ft.	\$2.79	\$ 3.30	18.3%

A monthly bill comparison for a customer with a ¾ inch meter when rate increases are complete is shown below:

<u>Usage</u> <u>100 cu. ft.</u>	<u>Interim</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
5	\$76.84	\$ 90.77	\$13.93	18.1%
10	\$90.79	\$107.27	\$16.48	18.2%
13.8 (avg.)	\$101.39	\$119.81	\$18.42	18.2%
20	\$118.69	\$140.27	\$21.58	18.2%
30	\$146.59	\$173.27	\$26.68	18.2%

(END OF APPENDIX C)

APPENDIX D
Klein Homes Water Company
Adopted Quantities
Test Year 2008

1. Purchased Power	
Total Cost	\$13,872
2. Water Sales in Ccf	2,981
3. Payroll	
Management Salaries	\$ 7,677
4. Property Taxes	\$ 254

Service Connections - Meter Size	
5/8 x 3/4"	0
3/4"	11
1"	7
1-1/2"	0
2"	0
Total Metered	18

Adopted Tax Calculation Test Year 2008

1. Operating Revenues	\$42,945
2. Expenses	\$32,272
3. Depreciation	\$ 1,764
4. Property Taxes	\$ 254
5. Taxable Income for State Tax	\$ 8,655
6. State Tax	\$ 800
7. Taxable Income for FIT	\$ 7,855
8. Federal Income Tax	\$ 1,178

(END OF APPENDIX D)