

WATER/JB5/RKK

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

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

**RESOLUTION W-4739**  
January 29, 2009

**R E S O L U T I O N**

**(RES. W-4739), CALIFORNIA AMERICAN WATER COMPANY  
(CAL-AM). ORDER AUTHORIZING A RATE BASE OFFSET  
INCREASE IN RATES PRODUCING ADDITIONAL GROSS  
ANNUAL REVENUES OF \$353,861 OR 1.06%.**

---

**SUMMARY**

By Advice Letter (AL) 709 filed on October 6, 2008, California American Water Company (Cal-Am) requests a revenue increase of \$353,840 or 1.06%, to provide a return on the addition to its rate base of \$2,742,291 for construction of the Forest Lake Tank # 3.

This resolution grants Cal-Am a revenue increase of \$353,861. The increase will not result in a rate of return greater than that last authorized for Cal-Am in Decision (D.) 06-11-050.

**BACKGROUND**

Cal-Am provides water services to approximately 39,000 residential, commercial, and industrial customers in the Monterey District.

D. 06-11-050, Ordering Paragraph (OP) 5, states in relevant part:

Cal-Am is authorized to file advice letters seeking Commission authorization for rate offsets in the Monterey district for the following capital projects when each has been completed and placed in service, no earlier than the year indicated and at costs not to exceed those indicated:

- a. Forest Lake Tank #3, test year 2007, maximum cost of \$4,575,000.

The Forest Lake Tank # 3 project consists of installation of a new storage water tank with a capacity of five (5) million gallons along with all associated piping to connect the

tank to the distribution system. The project is expected to provide: (1) increased service reliability by providing supplemental supply when extended peak demand exceeds production capacity while still meeting equalization, emergency and fire flow storage requirements (2) provide redundant central capacity storage during future maintenance of tank # 2 and (3) allow for potential energy cost savings by allowing certain primary wells to run during off-peak energy hours during the high demand season.

Cal-Am filed AL 709 on October 6, 2008 to request approval of a rate base increase for construction of the Forest Lake Tank # 3. Cal-Am is seeking to add to rate base \$2,742,291 for the project. This will result in an additional revenue requirement of \$353,840 or, 1.06%. Cal-Am proposes to recover a portion of the \$353,840 through a quantity surcharge of \$0.0381 per 100 Cubic Feet (ccf). The remaining balance would be recovered through a meter-based surcharge.

## **DISCUSSION**

The Division of Water and Audits (DWA) has reviewed the Forest Lake Tank # 3 project proposed for inclusion into rate base. DWA confirmed that the project is included in the list of authorized projects in D.06-11-050. DWA further confirmed that the project has been completed and that the requested cost recovery did not exceed that amount authorized. In addition, DWA reviewed invoices supporting expenditures associated with the project.

The total capital expenditure by Cal-Am for the project is \$2,742,291. DWA recommends that Cal-Am be authorized to add this amount to rate base.

### *Net-to-Gross Multiplier*

In D. 06-11-050, the Commission adopted a Net-to-Gross (NTG) multiplier of 1.74514. The computation of that NTG multiplier did not consider a credit for state taxes paid by Cal-Am. After taking that credit, the new NTG multiplier is 1.66846. See Appendix A for computations.

### *Pre-Tax cost of capital*

In D. 08-06-018, the Commission authorized a weighted average cost of capital of 7.85% for 2007 for Cal-Am's Sacramento District. This was based on a Debt to Equity of 58.16% to 41.84%. This is the most currently adopted figure for the weighted average cost of capital.

DWA recommends that the most currently available weighted average cost of capital is reflective of Cal-Am's debt structure and should be used to compute the revenue requirements for this project.

*Revenue Requirement*

To determine the necessary revenue requirement to recover the addition of \$2,742,291 to rate base, DWA used Commission approved rates in D. 06-11-050 and D.08-06-018 for rate base, rate of return, depreciation rate, ad valorem taxes and the modified NTG multiplier.

DWA computed the Revenue requirement to recover the addition of \$2,742,291 to rate base using the authorized Rate of Return of 7.85% in D.08-06-018, depreciation rate as adopted in D. 06-11-050, an ad valorem tax rate of 1.205%, and a NTG multiplier of 1.66846. Based on these figures, DWA calculated an additional revenue requirement of \$353,861 or, 1.06%. This compares with \$353,840 that was requested by Cal-Am. The difference in DWA's and Cal-Am's revenue requirements was because of a calculation error by Cal-Am.

For an average customer who uses 7 cubic feet (ccf) of water per month with a 3/4-inch meter, this additional revenue requirement will result in a monthly bill increase from \$26.16 to \$26.62, or 1.76%.

**NOTICE AND PROTESTS**

Public notice is not required because notice was completed by Cal-Am at the time of its general rate case proceeding Application (A.) 08-01-027. In compliance with General Rule 4.3 of General Order 96-B, a copy of this advice letter was mailed to all interested and affected parties as detailed in Advice Letter No. 709 for Cal-Am. DWA received no protests against the rate base adjustment or the projected rate increase related to the rate base adjustment.

**COMPLIANCE**

Cal-Am has no outstanding compliance orders. There are no Commission orders requiring system improvements. The utility has been filing annual reports as required.

**COMMENTS**

This is an uncontested matter subject to the Public Review and Notice comment exclusion provided in Public Utilities Code Section 311(G)(3).

## **FINDINGS**

1. In D. 06-11-050, the Commission adopted a NTG multiplier of 1.74514. The computation for that NTG multiplier did not consider credits for State Income Taxes.
2. When credit for state income taxes paid is considered, the revised NTG multiplier is 1.66846.
3. The revised NTG multiplier of 1.66846 is reasonable.
4. The most recent weighted average cost of capital of 7.85% was adopted for Cal-Am for Sacramento. This was based on a Debt to Equity of 58.16% to 41.84%.
5. The most recently adopted weighted average cost of capital of 7.85% is reflective of Cal-Am's debt structure and should be used for revenue requirement computations.
6. The requested increase in rate base of \$2,742,291 and the resulting annual revenue requirement increase of \$353,861 or 1.06%, are reasonable and should be adopted.
7. The Commission finds that, after investigation by the Division of Water and Audits, the rate base and revenue requirement increases and the resulting rate increase hereby authorized are just and reasonable.
8. This is an uncontested matter subject to the public notice comment exclusion provided in Public Utilities Code 311(g) (3).

## **THEREFORE IT IS ORDERED THAT:**

1. California American Water Company is authorized, five days after the effective date of this resolution, to make effective the increased rates in rate Schedules Nos.: MO-1, General Metered Service; MO-1-PAR, Low Income Program for Alternate Rates; MO-1-68, General Metered Service, Hidden Hills and Ryan Ranch Subdivision; MO-1-68 PAR, Low Income Program for Alternate Rates, Hidden Hills and Ryan Ranch Subdivision; MO-1AB, General Metered Service, Ambler Park and Bishop Service Area; MO-4, Private Fire Protection Service; MO-4AB, Private Fire Protection Service, Ambler Park and Bishop Service Area; and, MO-4H, Private Fire Hydrant Service, which are shown in Appendix B of this Resolution.
2. Expenditures for the completed Forest Lake Tank # 3 project totaling \$2,742,291 are allowed into the rate base of California American Water Company.

3. The revenue requirements of California American Water Company are allowed to increase annually by \$353,861 or 1.06%, to provide a return for the increase in rate base.

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

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

**Appendix A: Net to Gross Multiplier  
 For: California American Water Company - Monterey District**

<b>Line</b>	<b>Item</b>		<b>Reference</b>
1	Uncollectible %	0.24%	D. 06-11-050
2	1-Uncoll (100%-line 1)	99.7600%	
3	Franchise tax rate	0.0000%	
4	Local Franchise (line 3* line 2)	0.0000%	
5	Business license rate	0.0000%	
6	Business license (line 5* line 2)	0.0000%	
7	Subtotal (line 1 + line 4 + line 6)	0.24%	
8	1-Subtotal (100% - line 7)	99.76%	
9	CCFT ( line 8 * state tax rate)	7.54%	
10a	FIT (line 8 - Line 9) * Fed tax rate)	34.92%	
10b	Credit for State Taxes (Ln 9 * Ln 10a)	2.63%	
11	Total taxes paid (ln 7 + ln 9 - ln 10a + ln 10b)	40.06%	
12	Net after taxes (1-line 11)	59.94%	
<b>13</b>	<b>Net to Gross Multiplier (1/line 12)</b>	<b>1.66846</b>	
14	State Tax Rate	7.56%	D. 06-11-050
15	Federal Tax Rate	35.00%	D. 06-11-050

(End of Appendix A)

**Appendix B - Revised Tariff Sheets**  
**Page 1**

Schedule No. MO-1 (continued)  
Monterey District Tariff Area  
GENERAL METERED SERVICE

SPECIAL CONDITIONS (continued)

16. Per the effective date of Advice Letter 709 surcharges are included on (N) each bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a quantity surcharge of \$0.0376 per 100 cubic feet (ccf) and a monthly meter surcharge based on the following table:

Meter Size		Surcharge
5/8 x 3/4		\$0.20
3/4		\$0.31
1		\$0.51
1 1/2		\$1.02
2		\$1.63
3		\$3.06
4		\$5.10
6		\$10.20
8		\$16.32

**Appendix B - Revised Tariff Sheets**  
**Page 2**

Schedule No. MO-1-PAR  
Monterey District Tariff Area  
LOW INCOME PROGRAM FOR ALTERNATE RATES (continued)

SPECIAL CONDITIONS APPLICABLE TO ALL CUSTOMERS (continued):

16. Per the effective date of Advice Letter 709 a surcharge is included on (N) each bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a quantity surcharge of \$0.0376 per 100 cubic feet (ccf).

**Appendix B - Revised Tariff Sheets**  
**Page 3**

Schedule No. MO-1-68 (continued)  
Monterey District Tariff Area  
GENERAL METERED SERVICE  
HIDDEN HILLS AND RYAN RANCH SUBDIVISION

SPECIAL CONDITIONS

10. Per the effective date of Advice Letter 709, surcharges are included on (N) each bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a quantity surcharge of \$0.0376 per 100 cubic feet (ccf) and a monthly meter surcharge based on the following table:

Meter Size		Surcharge
5/8 x 3/4		\$0.20
3/4		\$0.31
1		\$0.51
1 1/2		\$1.02
2		\$1.63
3		\$3.06
4		\$5.10
6		\$10.20
8		\$16.32

**Appendix B - Revised Tariff Sheets**  
**Page 4**

Schedule No. MO-1-68 - PAR (continued)  
Monterey District Tariff Area  
LOW INCOME PROGRAM FOR ALTERNATE RATES  
HIDDEN HILLS AND RYAN RANCH SUBDIVISION

SPECIAL CONDITIONS APPLICABLE TO ALL CUSTOMERS: These conditions are applicable to all customers, including low-income customers.

9. Per the effective date of Advice Letter 709 a surcharge is included on (N) each bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a quantity surcharge of \$0.0376 per 100 cubic feet (ccf):

**Appendix B - Revised Tariff Sheets**  
**Page 5**

Schedule No. MO-1AB  
Monterey Peninsula District Tariff Area  
GENERAL METERED SERVICE  
AMBLER PARK AND BISHOP SERVICE AREA

SPECIAL CONDITIONS (continued)

Applicable to Ambler and Bishop (continued):

7. A surcharge is included in each bill to recover the difference in revenues between interim rates approved in D. 05-12-024 and final authorized rates in D. 06-11-050. The monthly meter surcharge will be added to all meter sizes for all classes of customers for a 12 month period beginning the effective date of Advice Letter 665 based on the following table:

Meter Size		Surcharge
5/8 x 3/4		\$4.31
3/4		\$6.47
1		\$10.78
1 1/2		\$21.56
2		\$34.49
3		\$64.67
4		\$107.79
6		\$215.57
8		\$344.92

8. Per the effective date of Advice Letter 709, surcharges are included on each (N) bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a quantity surcharge of \$0.0376 per 100 cubic feet (ccf) and a monthly meter surcharge based on the following table:

Meter Size		Surcharge
5/8 x 3/4		\$0.20
3/4		\$0.31
1		\$0.51
1 1/2		\$1.02
2		\$1.63
3		\$3.06
4		\$5.10
6		\$10.20
8		\$16.32

**Appendix B - Revised Tariff Sheets**  
**Page 6**

Schedule No. MO -4 (continued)  
Monterey Peninsula District Tariff Area  
PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (continued):

17. A surcharge is included in each bill to recover the difference in revenues between interim rates approved in D. 05-12-024 and final authorized rates in D. 06-11-050. The monthly connection surcharge will be added to all connection sizes for all classes of customers for a 12 month period beginning the effective date of Advice Letter 665 based on the following table:

< or equal to 4"	\$2.79
6	\$5.66
8	\$8.94
10	\$12.66

18. A surcharge is included on each bill to collect franchise taxes and/or business license fees paid to various municipalities. The amount collected is based on a percentage of the gross revenues of each bill. The percentages are as follows: Ryan Ranch 2.05%, City of Pacific Grove 2.10%, City of Carmel-by-the-Sea 2.15%, City of Seaside 1.00%, City of Del Rey Oaks 0.11%, City of Sand City 0.14%, City of Monterey 1.05%, and unincorporated areas of Monterey County 1.00%.

19. Per the effective date of Advice Letter 709, a surcharge is included on (N) each bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a monthly connection surcharge based on the following table:

< or equal to 4"	\$0.34
6	\$0.70
8	\$1.10
10	\$1.56

**Appendix B - Revised Tariff Sheets**  
**Page 7**

Schedule No. MO-4AB  
Monterey Peninsula District Tariff Area  
PRIVATE FIRE PROTECTION SERVICE  
AMBLER PARK AND BISHOP SERVICE AREA (continued)

SPECIAL CONDITIONS (continued)

7. Per Decision 06-11-050, a 3% monthly surcharge on customer bills will be collected for the minimum ERISA pension payment. Collections will be tracked in a balancing account. An annual advice letter filing will be made for a surcredit or surcharge, depending on the balance in the account.
8. Per Decision 06-11-050, a 1% monthly conservation surcharge will be collected from customers. The funds will support additional conservation efforts to be undertaken by the Monterey Peninsula Water Management District.
9. A surcharge is included in each bill to recover the difference in revenues between interim rates approved in D. 05-12-024 and final authorized rates in D. 06-11-050. The monthly connection surcharge will be added to all connection sizes for all classes of customers for a 12 month period beginning the effective date of Advice Letter 665 based on the following table:

< or equal to 4"	\$2.79
6	\$5.66
8	\$8.94
10	\$12.66

10. Per the effective date of Advice Letter 709, a surcharge is included on each (N) bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a monthly connection surcharge based on the following table:

< or equal to 4"	\$0.34
6	\$0.70
8	\$1.10
10	\$1.56

**Appendix B - Revised Tariff Sheets**  
**Page 8**

Schedule No. MO - 4H (continued)  
Monterey Peninsula District Tariff Area  
PRIVATE FIRE HYDRANT SERVICE (continued)

SPECIAL CONDITIONS (continued):

19. Per the effective date of Advice Letter 709, a surcharge is included on (N) each bill to recover costs related to the Forest Lake Tank #3 project authorized in D.06-11-050. Customers will see a monthly connection surcharge of \$0.33.

(End of Appendix B)