

WATER/RSK/FLC/JB5/TS2/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4742
February 20, 2009

R E S O L U T I O N

(RES. W-4742), WEST SAN MARTIN WATER WORKS (West San Martin). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING AN INCREASE OF \$103,668 OR 31.53% IN TEST YEAR 2009.

SUMMARY

By Draft Advice Letter filed on November 3, 2008, West San Martin 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 December 3, 2008.

This resolution grants an increase of \$103,668 or 31.53%, for total 2009 test year (TY) revenue of \$432,500 with a resulting rate of margin of 20%.

BACKGROUND

West San Martin, 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 36.7% or \$120,557 for test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. West San Martin's requests shows 2007 gross revenues of \$328,832, increasing to \$449,389 at proposed rates. West San Martin is requesting a rate of margin of 20%.

The present rates became effective on November 11, 2008, through Resolution (Res.) W-4721, which granted a 1.39% increase to offset water quality expenses. The last general rate increase was granted on March 21, 1980, pursuant to Res.W-2595, which authorized a rate increase of \$10,740, or 100%, resulting in a rate of return on rate base of 9.4%. A subsequent rate increase was approved on August 11, 1992 per Decision (D.) 92-08-004. Additionally, West San Martin has requested Consumer Price Index rate increases and surcharges to recover expenses in memorandum accounts or balancing accounts.

West San Martin provides metered rate service to 289 customers as of December 31, 2007. The number of customers is not expected to change substantially in the upcoming years, but West San Martin estimates an additional three customers using 1-inch meters for test year 2009. The water system is supplied by three wells that are around 400 feet deep with the shallowest one being about 387 feet. The major well is capable of running at 400 gallons per minute (gpm) while another can output around 340 gpm. The smaller well is only capable of producing approximately 115-120 gpm. There are also three 50,000-gallon storage tanks made of concrete with pumping stations between the three tanks at different elevations. A larger 400,000-gallon concrete tank was put in at the same elevation as the lower 50,000-gallon tanks. The distribution system consists of two, six, eight, ten, and twelve-inch mains and appurtenances. The older six and eight-inch pipe is made of concrete, while the other larger mains were put in around 1981. In 1987, new pipes made of plastic C900 were installed in various sizes, and later installations continued with the same type of plastic pipe for all diameters. Water quality is good and water treatment consists of chlorination.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on December 5, 2008. The Division and West San Martin did not receive any letters opposed to the rate increase.

An informal public meeting was held Thursday, January 8th, 2009 at the Madrone Room of the Community and Cultural Center located in Morgan Hill. The meeting started at 7:05 P.M. with two customers in attendance. The Division representative, Terence Shia, explained Commission procedures, as well as the purpose of the meeting. Then Mr. Marino Rodriguez, accountant for West San Martin, made a presentation to explain the need for the rate increase while handing out a Summary Statement of the Proposed Increase. 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 West San Martin's revenues, expenses, investments, and requested increase. The meeting adjourned at 7:55 P.M.

DISCUSSION

The Division made an independent analysis of West San Martin's operations. Appendix A shows West San Martin's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009. West San Martin 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 power, other volume related expenses, employee labor, materials, contract work, transportation expenses, other plant maintenance, office salaries, management salaries, employee benefits, uncollectibles expense, office services and rentals, office supplies and expenses, professional services, insurance, regulatory commission expenses, 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 West San Martin. The utility's estimate of most of the expenses, excluding purchased power, salaries, uncollectible accounts, and office services and rentals, is based on the past recorded year of 2007 while adding an additional escalation factor of 4.1% for each account. Division estimates operating expenses using a three year average method for the applicable expenses but uses the last updated DRA-approved inflation escalation factors of 6.3% for non-labor and 2.9% for labor expenses for 2008 and -0.8% for non-labor and 3.8% for labor expenses for 2009, as of January 31, 2009.

West San Martin has requested a rate of return on margin of 20%. The Division's Utility Audit, Finance, and Compliance Branch (UAF&CB) recommends a rate of margin of 20% 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 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 D. 92-03-093, 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. UAF&CB has also recommended a rate of return from 12.75% to 13.75% for Class D water utilities. A comparison of the two methods indicates that at a 20% rate of margin, the utility is granted a greater revenue requirement of \$432,500 as compared to \$346,647 for the rate of return method.

West San Martin's current rate structure consists of two schedules: 1, General Metered Service, and 4, Private Fire Protection Service. The rates proposed by the Division are shown in Appendix B. At the recommended rate of return the increase in revenue will be \$103,668 or 31.53% for 2009 test year revenue of \$432,500 with a resulting rate of margin of 20%.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8-inch metered customer using 15 Ccf would increase from \$32.58 to \$47.64, which is \$15.06, or 46.2% in test year 2009. 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

West San Martin has no outstanding compliance orders. The utility has been filing annual reports as required. As of December 2007, the California Department of Public Health's (DPH) findings were that the system has no major deficiencies. DPH confirmed that West San Martin has not had any major compliance issues. As such, DPH considers West San Martin to be in compliance with all applicable water quality regulations and standards.

The Division recommends that West San Martin also needs to update the following tariff rules and forms: Title Page, Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rules 3 (Application for Service); 5, (Special Information Required on Forms); 7, (Deposits); 8, (Notices); 9, (Rendering and Payment of Bills); 10, (Disputed Bills); 11, (Discontinuance and Restoration of Service); 15, (Main Extensions); and 16, (Service Connections, Meters, and Customer's Facilities); and Forms 2, (Form for "Customer's Deposit Receipt"); 3, (Form for "Bill for Service"); and the Connection Fee Data Form.

COMMENTS

This is an uncontested matter in which the resolution grants 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. West San Martin needs to update the following tariff rules and forms: Title Page, Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rules 3 (Application for Service); 5, (Special Information Required on Forms); 7, (Deposits); 8, (Notices); 9,

Appendix A					
West San Martin Water Works					
Summary of Earnings					
Test Year 2009					
<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
Operating Revenue					
General Metered Sales	\$ 326,444	\$ 446,243	\$ 326,444	\$ 446,243	\$ 429,473
Private Fire	\$ 2,388	\$ 3,146	\$ 2,388	\$ 3,146	\$ 3,028
	\$ 328,832	\$ 449,389	\$ 328,832	\$ 449,389	\$ 432,500
Operating Expenses					
615 Purchased Power	\$64,431	\$64,431	\$ 64,431	\$ 64,431	\$ 64,431
618 Other Volume Related Expenses	\$119,780	\$119,780	\$ 117,629	\$ 117,629	\$ 117,629
630 Employee Labor	\$9,450	\$9,450	\$ 15,861	\$ 15,861	\$ 15,861
640 Materials	\$6,363	\$6,363	\$ 3,499	\$ 3,499	\$ 3,499
650 Contract Work	\$12,525	\$12,525	\$ 11,216	\$ 11,216	\$ 11,216
660 Transportation Expenses	\$2,716	\$2,716	\$ 2,716	\$ 2,716	\$ 2,716
664 Other Plant Maintenance	\$6,152	\$6,152	\$ 6,152	\$ 6,152	\$ 6,152
670 Office Salaries	\$25,200	\$25,200	\$ 17,909	\$ 17,909	\$ 17,909
671 Management Salaries	\$31,500	\$31,500	\$ 28,127	\$ 28,127	\$ 28,127
674 Employee Benefits	\$6,615	\$6,615	\$ 6,190	\$ 6,190	\$ 6,190
676 Uncollectibles Expense	\$4,494	\$4,494	\$ 2,163	\$ 2,163	\$ 2,163
678 Office Services & Rentals	\$6,000	\$6,000	\$ 6,000	\$ 6,000	\$ 6,000
681 Office Supplies & Expenses	\$12,528	\$12,528	\$ 9,637	\$ 9,637	\$ 9,637
682 Professional Services	\$6,681	\$6,681	\$ 9,775	\$ 9,775	\$ 9,775
684 Insurance	\$6,568	\$6,568	\$ 6,568	\$ 6,568	\$ 6,568
688 Regulatory Commission Expense	\$3,800	\$3,800	\$ 4,741	\$ 4,741	\$ 4,741
689 General Expenses	\$1,792	\$1,792	\$ 1,792	\$ 1,792	\$ 1,792
Subtotal	\$ 326,595	\$ 326,595	\$ 314,406	\$ 314,406	\$ 314,406
Depreciation	\$ 11,789	\$ 11,634	\$ 11,634	\$ 11,634	\$ 11,634
Taxes other than Income	\$ 13,215	\$ 13,760	\$ 13,215	\$ 13,215	\$ 13,215
Income Taxes	\$ 800	\$ 27,000	\$ 800	\$ 25,394	\$ 25,394
Interest					
Total Deductions	\$352,399	\$378,989	\$340,055	\$364,649	\$364,649
Net Revenue	-\$23,567	\$70,400	-\$11,223	\$84,740	\$67,851
Rate Base					
Average Plant	\$ 1,877,559	\$ 1,877,559	\$ 1,877,559	\$ 1,877,559	\$ 1,877,559
Ave. Accumulated Depreciation	\$ 1,029,028	\$ 1,052,207	\$ 1,052,207	\$ 1,052,207	\$ 1,052,207
Net Plant	\$ 848,531	\$ 825,352	\$ 825,352	\$ 825,352	\$ 825,352
<u>Less</u> Advances	\$ 154,173	\$ 154,223	\$ 154,223	\$ 154,223	\$ 154,223
Contributions	\$ 677,514	\$ 660,129	\$ 660,129	\$ 660,129	\$ 660,129
<u>Plus</u> Working Cash	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
Materials & Supplies	\$ 27,200	\$ 27,200	\$ 27,200	\$ 27,200	\$ 27,200
Rate Base:	\$ 48,044	\$ 42,200	\$ 42,200	\$ 42,200	\$ 42,200
Rate of Margin					20.00%

(END OF APPENDIX A)

APPENDIX B

Schedule No. 1
GENERAL METERED SERVICE
Test Year 2009

APPLICABILITY

Applicable to all metered water service

TERRITORY

The community of San Martin, and vicinity, Santa Clara County

RATES

Quantity Rates:

First 300 cu ft., per 100 cu. ft.	\$ 1.73	(I)
Over 300 cu. ft., per 100 cu. ft.	\$ 2.05	(I)

Service Charge:

	Per Meter	
	Per Month	
For 5/8 x 3/4-inch meter	\$ 16.95	(I)
For 3/4-inch meter	\$ 16.95	
For 1-inch meter	\$ 23.73	
For 1-1/2-inch meter	\$ 30.51	
For 2-inch meter	\$ 40.67	
For 3-inch meter	\$ 50.85	
For 4-inch meter	\$ 59.26	
For 6-inch meter	\$ 101.70	
For 8-inch meter	\$ 135.60	
For 10-inch meter	\$ 169.50	(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. All bills are subject to the reimbursement fee set forth in Schedule UF. (D)
(D)
(L)

(continued)

APPENDIX B

Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE
Test Year 2009

APPLICABILITY

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

TERRITORY

The community of San Martin, and vicinity, Santa Clara County, between city limits of Morgan Hill and Gilroy.

RATES

<u>Service Charge:</u>	<u>Per Meter</u>	
	<u>Per Month</u>	
For 2-inch meter	\$ 3.80	(I)
For 3-inch meter	\$ 5.45	
For 4-inch meter	\$ 7.10	
For 6-inch meter	\$ 12.04	
For 8-inch meter	\$ 19.02	
For 10-inch meter	\$ 31.69	
For 12-inch meter	\$ 45.64	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. The facilities paid for by the applicant shall be the sole property of the applicant.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
3. Service hereunder is for private fire protection systems to which no connection for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the 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. Such payment shall not be subject to refund.

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

Test Year 2009

		Per Service Connection Per Month		
		Present	Recommended	Percent
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Service Charge:				
	For 5/8 x 3/4-inch meters	\$ 6.48	\$ 16.95	161.6%
	For 3/4-inch meters	\$ 7.14	\$ 16.95	137.4%
	For 1-inch meters	\$ 9.73	\$ 23.73	143.8%
	For 1-1/2-inch meters	\$ 12.97	\$ 30.51	135.2%
	For 2-inch meters	\$ 17.30	\$ 40.67	135.1%
	For 3-inch meters	\$ 32.44	\$ 50.85	56.7%
	For 4-inch meters	\$ 44.33	\$ 59.26	33.7%
Quantity Charge:				
Potable Water				
	First 300, per 100 cu. ft. . .	\$ 1.470	\$ 1.73	18.0%
	Over 300, per 100 cu. ft. . .	\$ 1.740	\$ 2.05	17.6%
A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:				
Usage	Present	Recommended	Amount	Percent
<u>100 cu. ft.</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
5	15.18	27.18	12.00	79.1%
10	23.88	37.41	13.53	56.7%
15 (avg)	32.58	47.64	15.06	46.2%
20	41.28	57.87	16.59	40.2%
30	58.68	78.33	19.65	33.5%
40	76.08	98.80	22.72	29.9%

(END OF APPENDIX C)

APPENDIX D

ADOPTED QUANTITIES

Test Year 2009

1. Purchased Power	
Total Cost	\$ 64,431
2. Water Sales in Ccf	167,701
3. Payroll	
Employee Labor	\$ 15,861
Office Salaries	\$ 17,909
Management Salaries	\$ 28,127
4. Payroll Taxes	\$ 5,113
5. Property Taxes	\$ 4,642
Service Connections - Meter Size	
5/8 x 3/4"	117
3/4"	3
1"	74
1-1/2"	36
2"	58
3"	2
4"	2
Total Metered	292

Adopted Tax Calculation Test Year 2009

1. Operating Revenues	\$432,500
2. Expenses	\$314,406
3. Depreciation	\$ 11,634
4. Payroll Taxes	\$ 5,113
5. Property Taxes	\$ 4,642
6. Franchise Fees	\$ 3,460
6. Taxable Income for State Tax	\$ 93,245
7. State Tax (min 800)	\$ 8,243
8. Taxable Income for FIT	\$ 85,002
9. Federal Tax	\$ 17,151

(END OF APPENDIX D)