

California Public Utilities Commission
Water Division

STAFF REPORT
ON
THE GENERAL RATE INCREASE REQUEST
FOR
MEYERS WATER COMPANY, INC.

Report written by
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SECTION 1 -- INTRODUCTION

On September 22, 2006 Meyers Water Company, Inc. (MWC) filed a general rate increase request. The staff (Staff) of the Water Branch (Branch) reviewed MWC's filing and accepted the filings on October 2, 2006.

No negative cash flow problems existed and therefore staff determined that no interim rate increase was warranted.

By Decision (D.) 74427, July 23, 1968 in Case No. 8724, the Commission found that Stanley D. Meyers and Opal Meyers were operating a public utility water system on Edgerly Island in Napa County, and not an accommodation as they claimed. By D.96-02-005, February 7, 1996 the Commission approved the transfer of Meyers Water Company to Kenny (Kenneth) and Heidi Van Gorder. Kenneth and Heidi Van Gorder were divorced and Kenneth Van Gorder was granted sole ownership of the property associated with Meyers Water Company. Decision 04-09-053 dated September 23, 2004, approved the sale of Meyers Water company to Meyers Water Company, Inc. Meyers Water Company, Inc. is a corporation owned by Jay M. Gardner, Pamela Simonson, Mat Fullner and Juell Fullner.

This report has the following appendices attached:

1. Appendix A – 2005 Summary of Earnings
2. Appendix B – MWC's Service Schedules (at recommended rates)
3. Appendix C – 2007 Recommended Quantities
4. Appendix D – Comparison of Rates (present vs. recommended)

MWC had requested authority, under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities (PU) Code, to increase rates by \$28,197, or 61.6% in 2007. This general rate increase is filed in order to recover increased operating expenses since the water system was acquired by MWC in September 2004, and to earn an adequate rate of return. The request shows present rate gross revenues of \$45,780 increasing to \$73,977 at proposed rates. The request was submitted utilizing rate of margin method. This report recommends that MWC be granted an increase of \$25,524 or 55.75% for Test Year 2007.

There are 99 flat rate customers in the Edgerly Island subdivision, located approximately 10 miles south of the city of Napa, in Napa County. Most residential customers are full-time residents, with a mixture of retired and working individuals.

MWC' current rates became effective on September 13, 2000 by Decision 92-03-093, which authorized through advice letter No. 13, a Consumer Price Index (CPI-U) rate increase of 2.7%. The last general rate increase became effective on September 24, 1997 pursuant to Resolution W-4066, which authorized a general rate increase of \$13,961 or 51.6% and a rate of return of 14%.

SECTION 2 -- SYSTEM DESCRIPTION

MWC is a corporation owned by Jay M. Gardner, Pamela Simonson, Mat Fullner and Juell Fullner. Jay M. Gardner and Matt Fullner are responsible for plant and equipment operations and both hold a D-2 Operator Licenses. Juell Fullner is responsible for accounts receivables, billing and customer relations. Jay M. Gardner manages the water system, overseeing actual operations, purchasing equipment, etc.

County of Napa oversees all water testing requirements.

The system consists of one well, pumps, storage tanks, distribution mains, services, water treatment equipment, etc. Distribution mains are mostly PVC plastic, ranging in size from 2" to 4".

G.O. 103 requires utilities to maintain normal operating pressures at the service connections between 40 to 125 pounds per square inch, with some pressure variations allowed. Staff verified that pressure in MWC's system meets G.O. 103 requirements.

SECTION 3 -- SUMMARY OF EARNINGS

Staff performed an independent analysis of MWC's summary of earnings. MWC's and Staff's estimates for operating revenues, operating expenses, and rate base at both present and proposed rates for the Test Year 2007 can be found in Appendix A.

Operating Revenues

MWC presently serves 99 active customers. There is no potential for growth in the area. Since January 1, 2004 through July 31, 2006 only three new customers were added. This represents an average increase of one customer per year. Estimated number of customers at the end of year 2006 was 99 customers and at the end of test year 2007 it is 100. Water consumption for test year 2006 is estimated at 96.5 Ccf per customer per year for a total estimated water consumption of 9,650 Ccf per year. Staff accepts MWC's estimated customer base and estimated water consumption numbers.

Operating Expense

Water Branch Staff (Staff) analyzed each operating expense category listed in Appendix A and *disagrees* with several of MWC' operating estimates. Each expense category is explained below.

Power

MWC is served by PG&E through one electrical meter through rate Schedule A-1. MWC calculated 11,954 Kwh in the test year, segregated between Winter and Summer Power Schedules.

Staff reviewed all calculations and agrees with MWC's estimate of actual energy use of 11,954 Kwh for a 12 month period. Based on PG&E's current tariff rates, Staff agrees with \$2,228 for the 2007 Test Year.

Employee Labor

MWC estimated \$7,800, based on one part-time employee. MWC employs one part time employee to maintain and repair its water system. Matt Fullner, a D-2 certified water plant operator, works an average of 360 hours per year at \$21.67/hr for an annual salary of \$7,800. Staff studied current pay scales of other similar sized water companies serving in and around the same area as MWC. Staff agrees with HWC estimate of \$7,800 for the 2007 test year.

Materials

MWC estimated \$1,255 for Materials, based on 2005 expenses plus an escalation factor of 3.4% for 2006-2007. Staff reviewed expenses booked to this account, and agrees with this estimate.

Contract Work (Excluding Water Testing)

MWC estimated \$1,000 for total Contract Work in 2007, with outside services consisting of water system maintenance and repairs. Average cost for the years 2004-2005 was \$763 (for a 10 months period of time). Staff studied contract work expenses and determined \$1,000 to be reasonable.

Contract Work-Water Testing

MWC estimated \$1,000 for Water Testing expenses in 2007 required by the County of Napa. Staff agreed with this estimate.

Transportation Expenses

MWC estimated \$3,080 for Transportation Expenses, which in the past paid for the by shareholders consisted of gas, oil, tires, etc. and occasional lease of heavy equipment like a backhoe, etc. During the last part of 2005, MWC acquired a pick up truck. Staff concurs with MWC's estimate of \$3,080 for transportation expenses.

Office Salaries

MWC estimates \$7,800 for office salary. MWC's estimate includes a part-time employee Juell Fullner, an officer of the corporation, who performs various functions including accounts receivables/collections, billing, bookkeeping, and accounting. Juell's salary is based on an average of 420 hours per year and her 2007 salary is \$18.57 per hour, which is equivalent to an average office salary paid in the City of Napa. Staff utilized the current pay scales of other water companies serving in and around the same area as MWC and used \$15 per hour. Staff determined \$6,300 to be reasonable in the 2007 Test Year.

Management Salaries

MWC estimates \$9,600 for Management Salary, paid to Mr. Jay Gardner, an officer of the corporation, who is responsible for the overall supervision of the utility operations and who also participates in the operation and maintenance of the water system and who also holds a D-2 water operating license. Staff utilized the current pay scales of other water companies serving in and around the same area as MWC. Staff determined \$9,600 to be reasonable in the 2007 Test Year.

Uncollectible Accounts Expense

MWC did not request Uncollectible Expenses in 2007 Test Year. Staff concurs.

Office Services and Rentals

MWC estimates \$3,850 for Office Services and Rentals for 2007 Test Year, which includes cost of office rent and other office services at \$3,600 a year plus an escalation factor of 3.4% for 2006-2007. Staff determined that only \$3,600 is reasonable.

Office Supplies and Expenses

MWC estimates \$1,680 for Office Supplies and Expenses for 2007 Test Year. MWC based the test year number on the average 2004-2005 cost plus a 3.4% CPI for 2006-2007. Staff reviewed expenses booked to this account, which include telephone costs, postage, printing and office supplies. Staff concurs with this amount.

Professional Services

MWC estimates \$2,380 for Professional Services, which includes legal fees, accounting fees and engineering fees. MWC averaged years 2004-2005 plus used 5% CPI for 2006-2007. While staff agreed with MWC on its methodology of averaging years 2004-2005, it used a 3.4% CPI for 2006-2007 to arrive at \$2,230 for Professional Services.

Insurance

MWC estimates \$3,853 for Insurance Expenses in 2007. Staff reviewed expenses booked to this account which contains charges for liability insurance and automobile insurance. Workers' compensation insurance is not necessary at this time because all employees are also officers of the corporation and all signed a document requesting to be exempt from worker' compensation insurance according to the law. Actual invoices depict \$2,586 for liability insurance and \$1,140 for automobile insurance in 2006. MWC based its estimate on 2006 cost plus a 3.4% CPI for 2007 Test Year. Staff agrees with MWC's estimate of \$3,853 in 2007 Test Year.

Regulatory Commission Expense

MWC current year estimate of \$1,800 includes consultant fees for this rate case and other advice letter filings. Staff agrees with MWC's methodology of amortizing all regulatory consultant fees over three years plus the additional annual cost of \$600 for advice letter filings. Staff determined \$1,800 to be reasonable.

General Expense

MWC estimates \$2,058 for 2007 Test Year by averaging expenses for years 2004-2005 expense plus an escalation factor of 3.4% CPI for 2006-2007. Staff agreed with MWC's estimate.

Depreciation Expense

MWC estimates \$2,859 for 2007 Test Year depreciation expense based on its estimate of average utility plant and using aggregate depreciation rate of 4.15%. Staff agrees with estimated plant in service as of 1/1/07 to be \$98,890, less \$6,000 estimate for land intangible plant and less CIAC of \$24,000. Using an aggregate depreciation rate of 4.15% (rate allowed in the last general rate case) staff calculated depreciation expense to be \$2,859 in Test Year 2007.

Taxes Other Than Income Taxes

MWC estimates \$3,683 for Taxes other than Income Taxes, which includes \$852 in property tax expenses and \$2,831 in payroll tax expenses. MWC determined the amount of test year property tax expenses by using actual 2005/2006 property tax bills and estimating payroll taxes based on proposed payroll expenses. Staff agrees with MWC's estimate of property taxes and calculated payroll taxes based on Staff's estimate of payroll of \$23,700. Staff determined \$2,716 in payroll tax expenses and a determined a total of \$3,568 in taxes other than income taxes in Test Year 2007.

Income Taxes

Income taxes were calculated based upon net taxable revenue. MWC estimates \$4,069 at proposed rates. Staff estimates \$800 at present rates and \$3,916 at recommended rates in Test Year 2007.

Rate Base

Staff has analyzed each of the rate base categories and agrees with MWC's estimates.

Average Plant-in-Service

MWC estimates \$98,890 as average water plant-in-service. Staff reviewed each of the plant categories and agreed with 2007 average plant-in-service numbers.

Average Depreciation Reserve

MWC estimates \$71,268 as average depreciation reserve for Test Year 2007. Staff agrees with 2007 average depreciation reserve numbers.

Contributions in aid of Construction (CIAC)

MWC estimates \$24,000 in CIAC and \$3,132 in average CIAC depreciation reserve. Staff agrees with these numbers.

Rate of Return and Rate of Margin Methods

Two methods are available for Staff to utilize in the ratemaking process: (1) Rate of Return and (2) Rate of Margin. Staff first calculates the revenue requirement utilizing the rate of return on rate base method and then calculates the revenue requirement utilizing the rate of margin method. Policy dictates that Staff will recommend the method that produces the higher revenues.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio (more properly called the rate of margin) method of ratemaking as an alternative to the rate of return on rate base method for Class C and Class D utilities. The rate of margin method provides a cushion to volatility in expenses and revenues. It is not intended to provide an "adequate return" on the owner's investment.

Ordering Paragraph eight of D.92-03-093 states: "Branch is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and D water companies requesting new rates and to recommend to the Commission the rate method that produces the higher results.

In the rate of margin method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other

taxes, and an operating margin. On February 27, 2006, the Commission adopted a rate of margin for Class D water utilities of 25% for year 2006. In its filing, MWC requested that Staff use the rate of margin method to calculate proposed rates.

The rate of margin method produces a revenue requirement of \$71,304 and rate of return on rate base method produces a revenue requirement of \$57,884. In keeping with the adopted Commission policy, Staff will recommend the rate of margin method revenue requirement.

SECTION 4 -- RATE DESIGN

MWC' current rate structure consists of one schedule: Schedule No. 2R, Residential Flat Rate Service. The new rate schedules can be found in Appendix B. Bill comparisons can be found in Appendix C.

SECTION 5 -- SERVICE, FIELD VISIT, NOTICE AND PUBLIC RESPONSE

Staff engineer Ms. Cherkas conducted a field investigation of MWC's office and visible portions of MWC' system and service area on December 18, 2006. Customer notices of the proposed rate increase were mailed to each customer on November 24, 2006. Two protest letters were received by Staff, complaining about the magnitude of the increase.

From January 1, 2006 to December 31, 2006, the Consumer Affairs Branch of the Public Affairs Division received no complaints regarding MWC.

On December 18, 2006, Staff held an informal public meeting in MWC's service area. The meeting started at 7:00pm and adjourned at 8:45pm. Fourteen customers attended the meeting. Ms. Cherkas, Utilities Engineer, explained Commission rate setting procedures. Mr. Marino Rodriguez, a consultant to MWC, explained the need for the increase. Mr. Jay Gardner, manager of the MWC, addressed various service questions. The customers who attended the meeting asked questions about various expense categories.

SECTION 6 -- COMPLIANCE AND OTHER ISSUES

There are no outstanding Commission orders requiring system improvements. MWC has been filing annual reports as required. However, Meyers needs to update the following tariff schedules in its tariff book: Rule No. 2, Description of Service; Rule No. 3, Application for Service; Rule No. 5, Special Information Required on Forms; Rule No. 7, Disputes; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Rule No. 20, Water Conservation; Rule No 21, Fire Protection; Form 2, Customer's Deposit Receipt; Form 3, Bill for Service, and Schedule LC, Late Payment

SECTION 7 -- FINDINGS

The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.

The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.

The quantities (Appendix C) used to develop the Staff's recommendations are reasonable and should be adopted.

The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.

SECTION 8 -- RECOMMENDATIONS

1. The Commission adopts Staff's recommended Summary of Earnings (Appendix A).
2. The Commission authorizes an increase of annual revenues of \$25,524, or 55.75% at the recommended rates contained in Appendix B.
3. The Commission adopts the quantities (Appendix C) used to develop the Staff's recommendations.
4. Meyers should be required to update the following tariff schedules in its tariff book: Rule No. 2, Description of Service; Rule No. 3, Application for Service; Rule No. 5, Special Information Required on Forms; Rule No. 7, Disputes; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Rule No. 20, Water Conservation; Rule No 21, Fire Protection; Form 2, Customer's Deposit Receipt; Form 3, Bill for Service, and Schedule LC, Late Payment

Appendix A
Meyers Water Company, Inc.
Summary Of Earnings - Test Year 2007

Description	MWC Present Rates	MWC Requested Rates	Branch Present Rates	Branch Requested Rates	Branch Recommended Rates
OPERATING REVENUES					
Flat Water Revenue	45,780	73,977	45,780	71,304	71,304
TOTAL REVENUES	45,780	73,977	45,780	71,304	71,304
OPERATING EXPENSES					
Purchased Power	2,228	2,228	2,228	2,228	2,228
Other Volume Related Exp.	0	0	0	0	0
Employee Labor	7,800	7,800	7,800	7,800	7,800
Materials	1,255	1,255	1,255	1,255	1,255
Contract Work – General Exp.	1,000	1,000	1,000	1,000	1,000
Contract Work – Water Testing	1,000	1,000	1,000	1,000	1,000
Transportation Expenses	3,080	3,080	3,080	3,080	3,080
Office Salaries	7,800	7,800	6,300	7,800	6,300
Management Salaries	9,600	9,600	9,600	9,600	9,600
Uncollectible Accounts Exp.	0	0	0	0	0
Office Services and Rentals	3,850	3,850	3,600	3,850	3,600
Office Supplies and Expenses	1,680	1,680	1,680	1,680	1,680
Professional Services	2,380	2,380	2,230	2,380	2,230
Insurance	3,853	3,853	3,853	3,853	3,853
Regulatory Commission Expenses	1,800	1,800	1,800	1,800	1,800
General Expenses	2,058	2,058	2,058	2,058	2,058
SUBTOTAL	49,384	49,384	47,484	49,384	47,484
Depreciation Expense	2,859	2,859	2,859	2,859	2,859
Taxes Other Than Income Taxes	3,683	3,683	3,568	3,683	3,568
Income Taxes	800	4,069	800	3,112	3,916
TOTAL DEDUCTIONS	56,726	59,995	54,711	57,023	57,827
NET REVENUE	-	13,982	-	14,281	13,477
RATE BASE					
Average Plant	98,890	98,890	98,890	98,890	98,890
Less: Avg. Accum. Depreciation.	71,268	71,268	71,268	71,268	71,268
Net CIAC	20,868	20,868	20,868	20,868	20,868
RATE BASE	6,754	6,754	6,754	6,754	6,754
RATE OF RETURN					
-					
OPERATING RATIO					
					25%

**Appendix B
Meyers Water Company, Inc.**

**Schedule No. 2R
RESIDENTIAL FLAT RATE SERVICE**

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Edgerly Island subdivision, located approximately 10 miles south of the city of Napa, in Napa County.

RATES

	Per Service Connection <u>Per Month</u>	
For a single-family residential unit, Including premises not exceeding 10,000 sq. ft. in area.....	\$59.42	(I)

SPECIAL CONDITIONS

1. The above flat rate applies to service connection not larger than one-inch in diameter.
2. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

Appendix C
Meyers Water Company, Inc.
Recommended Quantities - Test Year 2007

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
2. State Tax Rate: **8.84%**
3. Service Connections: 100 Flat Rate Customers
4. Property Taxes: \$852
1.103% tax rate
5. Payroll Taxes: \$2,716
6. Contract Work - Water Testing: \$1,000
7. Purchased Power

PG&E

Schedule No. A-1

Power Consumption

Summer	7,982 kwh
Winter	3,972 kwh

8. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$71,304	\$ 71,304
2.	Expenses	\$47,484	\$ 47,484
3.	Taxes Other Than Income Taxes	\$ 3,568	\$ 3,568
4.	Depreciation	\$ 2,859	\$ 2,859
5.	State Taxable Income	\$ 17,393	
6.	State Income Tax (@8.84% or \$800 minimum)	\$ 1,538	
7.	Federal Taxable Income		\$ 15,855
8.	Federal Income Tax (15%)		\$ 2,378
9.	TOTAL INCOME TAX		\$ 3,916

Appendix D
Meyers Water Company, Inc.

Comparison of Rates - Test Year 2007

Present Rate	Recommended Rate	% Increase
\$38.15	\$59.42	55.75%