

# PROPOSED RESOLUTION

RES. W-4972  
DWA/RSK/BMD/PTL/ds4

AGENDA ID #12757  
February 27, 2014

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION W-4972  
February 27, 2014

### RESOLUTION

**(RESOLUTION W-4972) TRINITY VILLAGE WATER COMPANY, ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL REVENUE OF \$14,113, OR 9.39%, FOR TEST YEAR 2013.**

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### SUMMARY

By Advice Letter (AL) 21-W, filed on June 6, 2012, Trinity Village Water Company (TVWC) seeks to increase its rates for water service to recover increased operating expenses and earn a reasonable return. On September 3, 2013, TVWC submitted additional information for Test Year (TY) 2013 based on the Division of Water and Audits' (Division) audit. TVWC also submitted a revised 2012 annual report on November 6, 2013.

This Resolution (Res.) grants an increase in gross annual revenues of \$14,113, or 9.39%, over current rates for TY 2013. The rate schedules implementing the revenue increase are set forth in Appendix B. This increase in revenue is estimated to provide a rate of margin of 22.08%, based on the Division's estimate of sales and expenses.

### BACKGROUND

TVWC, a Class D water utility, has requested authority to increase its rates under Rule 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code in order to increase its water revenues by \$43,778, or 35.28%, for TY 2012. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. TVWC's request was based on a rate of margin of 20.91%. TVWC attributes the magnitude of its increase request to the absence of increases for over 6 years.

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TVWC's present rates became effective on June 6, 2012, by approval of AL 20-W, which authorized an interim rate increase resulting in increased revenues of \$3,723, or 3%. The last General Rate Case (GRC) for TVWC was granted on October 5, 2006, pursuant to Res. W-4618, which granted an increase in revenues of \$56,054, or 98.06%.

TVWC serves approximately 193 customers. TVWC is located in Salyer, California, the area known as Trinity Village Subdivision, and vicinity, located approximately 11 miles southeast of Willow Creek, Trinity County. TVWC is owned and operated by Frances B. Mathews and Danny Walsh, both sons of the original founders.

TVWC is supplied with treated surface water from its treatment plant. The system has two storage tanks with a total capacity of 240,000 gallons. Water flows under gravity from the storage tank to the lower pressure zone and is supplied to the upper pressure zone by a 7.5 horsepower booster pump.

### **NOTICE AND PROTEST**

In accordance with GO 96-B, AL 21-W was served on June 6, 2012, on adjacent utilities and persons on the general service list. On June 25, 2012, a notice of the proposed rate increase was mailed to each customer's permanent address and to the general service list. No protest was received.

An informal public meeting was held on Tuesday, July 5, 2012, at 6:00 PM at the Trinity Village Treatment Facility, located at 8 Flame Tree Road, Salyer, CA. Two customers attended the meeting. The Division staff explained the Commission's procedure for reviewing AL 21-W. TVWC representatives explained the need for the proposed rate increase. The Division staff and TVWC representatives answered questions until approximately 6:28 PM.

Two customers acknowledged that some increase was warranted because the customer service was very good and because improvements had been made to the water system. The customers also indicated ratepayers were working on forming a mutual water company in order to take over the water company. The owners stated that they would be very glad to hand over the water company to the ratepayers.

In setting rates in this Resolution, we have balanced the financial requirements of TVWC with the rate concerns of its customers.

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## DISCUSSION

TVWC's request to increase revenues by 35.28% stems largely from the absence of a general rate increase for over 6 years and the use of incorrect 2012 annual report information in estimating its expenses.

The Division made an independent analysis of TVWC's operations. The Division audited TVWC's 2012 annual report, reviewed the invoices supporting the expenditures, and made adjustments on the 2012 annual report based on the audit. This audit was completed on August 16, 2013. On September 3, 2013, TVWC submitted additional information for TY 2013 based on the audit. TVWC also submitted a revised 2012 annual report on November 6, 2013. The Division used the revised 2012 annual report amounts to make its estimates of expenses and plant.

Appendix A shows TVWC's and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2013. TVWC estimates for expenses and plant significantly exceed the Division estimates. These differences exist because the Division used the corrected 2012 annual report amounts, while TVWC used the incorrect 2012 annual report amounts. As explained above the 2012 annual report was corrected by an audit of the invoices. TVWC now agrees with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increases and resulting rates shown in Appendix B.

TVWC's request was based on a rate of margin of 20.91%. The recommended rate of return range is from 11.00% to 12.00%, and a recommended rate of margin for a Class D utility is 22.08%<sup>1</sup>. In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the return on margin ratemaking method as an alternate to the rate of return on rate base method for calculating net revenue for Class C and Class D Utilities, and required the Division to recommend the method that produces the higher net revenue result. The Division found that using a 22.08% rate of margin would produce \$164,508 in revenue for TY 2013, which is higher than the \$131,525 in revenue calculated using the rate of return method. Therefore, Division recommends using the rate of margin method.

TVWC's rate structure consists of one schedule: Schedule No. 1A, General Metered Service. That rate structure's quantity rates were divided into two tiers to promote

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<sup>1</sup> This recommendation is set forth in a March 22, 2013 memorandum from the Division of Water and Audits to the Commission entitled Rates of Return and Rates of Margin for Class C and Class D Water Utilities.

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conservation among higher use customers and were previously authorized in TVWC's last rate case by Res. W- 4618. For TY 2013, TVWC proposed using the same rate structure/ design adopted by Res. W-4618. The Division concurs. No evidence was presented to support modifying the current rate structure. The Division-proposed rate design would collect 74% of fixed costs through the service charge. The rates proposed by the Division are shown in Appendix B.

At the Division's recommended rates shown in Appendix B, the increase in revenues will be \$14,113, or 9.39%, for TY 2013. The bi-monthly rates for an average consumption of 11 Ccf (one Ccf is equal to one hundred cubic feet) will increase from \$91.47 to \$100.03, a difference of \$8.56, or 9.36%, in TY 2013. 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.

A review of TVWC's 2012 California Department of Public Health's (CDPH) Consumer Confidence Report (CCR) shows that its water meets the required quality standards set by the CDPH. TVWC provides customers the annual CCR regarding testing and water quality issues, and customers have expressed confidence in the water quality.

TVWC also requested to: a) establish a legal memorandum account to record unanticipated legal expenses for possible recovery; and b) establish a facilities replacement surcharge and associated facilities replacement account to provide funding for plant replacements. TVWC provided no workpapers in AL 21-W to support its request. After the Division discussed this problem with TVWC, TVWC informed the Division that it has no information to substantiate its request and withdrew its request.

### **COMPLIANCE**

TVWC has no outstanding compliance orders. The utility has been filing annual reports as required.

### **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code 311(g)(2), the otherwise 30-day period for public review and comment is being waived.

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### FINDINGS

1. Trinity Village Water Company (TVWC) is a Class D water utility and serves approximately 193 customers.
2. TVWC's present rates became effective on June 6, 2012, by approval of Advice Letter (AL) 20-W, which authorized an interim rate increase resulting in increased revenues of \$3,723, or 3%.
3. TVWC has requested authority to increase its water revenue by \$43,778, or 35.28%, for Test Year (TY) 2012.
4. On June 6, 2012, AL 21-W was served in accordance with General Order 96-B. On June 25, 2012, a notice of the proposed rate increase was mailed to each customer and to the general service list. No protest was received.
5. In reviewing TVWC's request, the Division of Water and Audits (Division) made an independent analysis of TVWC's operations.
6. TVWC's estimates were based on information from an incorrect 2012 Annual Report. The Division audited TVWC's 2012 annual report, reviewed the invoices supporting the expenditures, and made adjustments on the 2012 annual report based on the audit. This audit was completed on August 16, 2013.
7. On September 3, 2013, TVWC submitted additional information for TY 2013 based on the audit. TVWC also submitted a revised 2012 annual report on November 6, 2013.
8. The Division used the revised 2012 annual report amounts to make its estimates of expenses and plant.
9. TVWC used incorrect 2012 annual report amounts to estimate 2013 expenses and plant, while the Division's estimates for 2013 expenses and plant are based on the correct 2012 annual report amounts. This results in significant differences between TVWC and the Division for expense and plant estimates for Test Year 2013.
10. TVWC now agrees with the Division's recommended revenue requirement, shown in Appendix A.
11. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
12. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
13. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.

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14. The Division found that using the 22.08% rate of margin would produce \$164,508 in revenue for TY 2013, which is higher than the \$131,525 in revenue calculated using the rate of return on rate base method.
15. TVWC's request was based on a rate of margin of 20.91%. The recommended for rate of margin for a Class D utility is 22.08%. The Division's recommended rate of margin for TVWC is 22.08%.
16. For TY 2013, it is appropriate to grant TVWC an increase in gross annual revenues of \$14,113, or 9.39%, over current rates.
17. These revenue increases will yield a rate of margin of 22.08% in Test Year 2013.
18. TVWC's rate structure consists of one schedule: Schedule No. 1A, General Metered Service. That rate structure's quantity rates were divided into two tiers to promote conservation among higher use customers and were previously authorized in TVWC's last rate case by Res. W- 4618.
19. For TY 2013, TVWC proposed using the same rate design adopted by Resolution W-4618. The Division concurs. No evidence was presented to support modifying the current rate structure.
20. The Division-proposed rate design would collect 74% of fixed costs through the service charge. The rates proposed by the Division are shown in Appendix B.
21. At the recommended rates, bi-monthly rates for an average consumption of 11 Ccf will increase from \$91.47 to \$100.03, or a difference of \$8.56, or 9.36%, in TY 2013.
22. TVWC has no outstanding compliance orders. The utility has been filing annual reports as required.
23. TVWC also requested to: a) establish a legal memorandum account to record unanticipated legal expenses for possible recovery; and b) establish a facilities replacement surcharge and associated facilities replacement account to provide funding for plant replacements.
24. TVWC provided no workpapers in AL 21-W to support its request. TVWC informed the Division that it has no information to substantiate its request and withdrew its request.

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### THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Trinity Village Water Company to file a supplemental advice letter with the revised rate schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective rate Schedules Nos. 1A, General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Trinity Village Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from June 6, 2012, the interim rate date, to the effective date of the new rates established in this Resolution. This advice letter shall become effective upon approval by the Division of Water and Audits.
3. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
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 February 27, 2014; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

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## APPENDIX A Trinity Village Water Company

### Summary of Earnings Test Year 2013

Item	Utility Estimated		Division Estimated		Division Recommended Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b><u>OPERATING REVENUES</u></b>					
Metered Rates	124,104	167,882	150,395	167,882	164,508
<b><u>Total Revenue</u></b>	<b>124,104</b>	<b>167,882</b>	<b>150,395</b>	<b>167,882</b>	<b>164,508</b>
<b><u>OPERATING EXPENSES</u></b>					
Purchased Power	13,503	13,503	14,219	14,219	14,219
Other Volume Related Expenses	0	0	0	0	0
Employee Labor	0	0	0	0	0
Materials	508	508	3,640	3,640	3,640
Contract Work	37,389	37,389	36,680	36,680	36,680
Water Testing	0	0	0	0	0
Transportation	776	776	18,814	18,814	18,814
Other Plant Maintenance	23,068	23,068	15,418	15,418	15,418
Office Salaries	0	0	0	0	0
Management Salaries	19,261	19,261	0	0	0
Employee Benefits	0	0	0	0	0
Uncollectibles	0	0	564	564	564
Office Services & Rental	1,571	1,571	9,950	9,950	9,950
Office Supplies and Exp	3,795	3,795	3,328	3,328	3,328
Professional Services	11,464	11,464	11,566	11,566	11,566
Insurance	5,791	5,791	5,793	5,793	5,793
Regulatory Comm Exp	4,334	4,334	5,590	5,590	5,590
General Expenses	308	308	522	522	522
<b>Subtotal</b>	<b>121,768</b>	<b>121,768</b>	<b>126,084</b>	<b>126,084</b>	<b>126,084</b>
Depreciation Expense	2,899	2,899	1,518	1,518	1,518
Taxes other than income	8,564	8,564	546	546	546
State Income Tax	800	3,063	1,967	3,512	3,214
Federal Income Tax	7,783	5,520	3,042	5,433	4,971
<b>Total Deductions</b>	<b>141,814</b>	<b>141,814</b>	<b>133,157</b>	<b>137,093</b>	<b>136,333</b>
<b><u>NET REVENUE</u></b>	<b>(17,710)</b>	<b>26,068</b>	<b>17,238</b>	<b>30,789</b>	<b>28,175</b>
<b><u>RATE BASE</u></b>					
Average Plant	N/A	N/A	171,149	171,149	171,149
Ave. Accumulated Depreciation	N/A	N/A	154,471	154,471	154,471
<b><u>Net Plant</u></b>	N/A	N/A	<b>16,678</b>	<b>16,678</b>	<b>16,678</b>
Plus Working Cash	N/A	N/A	5,596	5,596	5,596
Plus Materials and Supplies	N/A	N/A	0	0	0
Less Advances	N/A	N/A	0	0	0
Less Contributions	N/A	N/A	0	0	0
<b><u>Rate Base</u></b>	N/A	N/A	<b>22,274</b>	<b>22,274</b>	<b>22,274</b>
<b><u>RATE OF MARGIN</u></b>	negative	20.91%	13.51%	24.13%	22.08%

(END OF APPENDIX A)

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## APPENDIX B Trinity Village Water Company

### SCHEDULE NO. 1A

### GENERAL METERED SERVICE

Test Year 2013

#### APPLICABILITY

Applicable to all metered water service furnished on a bi-monthly basis.

#### TERRITORY

The area shown on the Service Area Map.

#### RATES

##### **Quantity Rates:**

First 1100 cubic feet, per 100 cu. ft                      \$0.84

Over 1100 cubic feet, per 100 cu. ft                      \$3.21

##### **Service Charge:**

##### **Per Meter Bi-Monthly**

For 5/ 8 x 3/4-inch meter                                      \$90.79

For 3/ 4-inch meter    \$136.20

For 1-inch meter     \$227.56

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the charge computed at the Quantity Rates.

#### SPECIAL CONDITIONS:

1. The established billing cycle for General Metered Service is every two months
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF

**(END OF APPENDIX B)**

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## APPENDIX C Trinity Village Water Company

### COMPARISON OF RATES

Test Year 2013

Service Charges:	Per Service Connection Billed Bi-Monthly		
	<u>Present Rates *</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For 5/ 8 x 3/ 4- inch meter	\$83.00	\$90.79	9.39%
<b>Quantity Charges:</b>			
All water delivered per 100 cu. ft. (for first 1100 cu. ft.)	\$0.77	\$0.84	9.39%
All water delivered per 100 cu. ft. (above 1100 cu. ft.)	\$2.93	\$3.21	9.39%

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Comparison of average monthly customer bill at present and authorized rates for a 5/ 8 x 3/ 4-inch meter service using various quantities of water.

<u>Usage 100 cu. ft.</u>	<u>Present Rates *</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 83.00	\$ 90.79	\$ 7.79	9.39%
5	\$ 86.85	\$ 94.99	\$ 8.14	9.38%
11 (Avg)	\$ 91.47	\$100.03	\$ 8.56	9.36%
15	\$103.19	\$112.87	\$ 9.68	9.38%
20	\$117.84	\$128.92	\$11.08	9.41%
30	\$147.14	\$161.02	\$13.88	9.44%

\* The present rates became effective on June 6, 2012, by approval of AL 20-W, which authorized an interim rate increase resulting in increased revenues of \$3,723, or a 3% increase.

(END OF APPENDIX C)

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## APPENDIX D Trinity Village Water Company

### ADOPTED QUANTITIES

TEST YEAR 2013

### ADOPTED QUANTITIES

1. Purchased Power	
Total Cost	\$14,219
2. Water Sales in Ccf	26,036
3. Property Taxes	\$546
4. Service Connections	
5/ 8 - inch by 3/ 4 inch	193
5. Tax Calculation	
Taxable Income for State Tax	\$36,360
State Tax @8.84%	\$ 3,214
Taxable Income for Federal Tax	\$33,146
Federal Tax @15%	\$ 4,971
Total Income Tax	\$ 8,185

**(END OF APPENDIX D)**



**TRINITY VILLAGE WATER COMPANY  
ADVICE LETTER NO. 21-W  
SERVICE LIST**

Danny Walsh  
Trinity Village Water Company  
PO BOX 556  
Salyer, CA 95563

[tvwatercompany@gmail.com](mailto:tvwatercompany@gmail.com)

Willow Creek Community Service District  
PO Box 8  
Willow Creek, CA 95573

Riverview Acres Water Company  
PO Box 81  
Salyer, CA 95563

Fred Curry  
[flcurry@gmail.com](mailto:flcurry@gmail.com)