
CALIFORNIA PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



MAY 15, 2009

FILE NO. 602-19

TO: PARTIES OF THE EAST PASADENA WATER COMPANY SERVICE LIST

Enclosed is the Resolution on the general rate increase request of the East Pasadena Water Company.

If you have any questions about the staff report regarding recommendations for expense and plant estimates, rate designs, and tariff rates, please contact Terence Shia at (415) 703-2213 or ts2@cpuc.ca.gov. If you wish to appeal staff's recommendations and findings, please write to Fred Curry, Chief, Water and Sewer Branch, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102.

Very truly yours,

Jim Boothe
Program and Project Supervisor
Water and Sewer Advisory Branch
Division of Water and Audits

Enclosure

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AGENDA ITEM # _____

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-4764
June 18, 2009**

R E S O L U T I O N

(RES. W-4764), EAST PASADENA WATER COMPANY (East Pasadena). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING AN INCREASE OF \$398,281 OR 22.15% IN TEST YEAR 2009.

SUMMARY

By Draft Advice Letter filed on January 7, 2009, East Pasadena 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 February 2, 2009.

This resolution grants an increase of \$398,281 or 22.15%, for total 2009 test year (TY) revenue of \$2,196,500 with a resulting rate of return of 10.80%.

BACKGROUND

East Pasadena, a Class B 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 \$520,028 or 28.92% in test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. East Pasadena's request shows 2008 gross revenues of \$1,798,219 at present rates, increasing to \$2,318,247 at proposed rates. East Pasadena is requesting a rate of return of 12%.

The present rates became effective on August 28, 2008, through Advice Letter No. 68, which granted a 4.1% Consumer Price Index increase. The last general rate increase was granted on December 19, 2000 pursuant to Res. W-4239, which authorized a rate increase of \$245,843, or 21.38%, resulting in a rate of return on rate base of 10.75%.

The East Pasadena service area is located within the San Gabriel Valley and provides water distribution to parts of the city of Arcadia, the City of Temple City, the City of Pasadena, and unincorporated Los Angeles. The utility is 100% owned by California-Michigan Land and Water Co. (Cal-Mich). Cal-Mich has 1,377.97 shares of stock outstanding, owned by 25 shareholders. East Pasadena has three members on its Board of Directors. The Board selects the Officers of the Company. As of October 2008, the Officers of the Company are as follows: President, Anton C. Garnier; Vice President, Lawrence Morales; Chief Financial Officer, Dennis J. Callaghan; Vice President of Real Estate, Max Ramberg.

East Pasadena provides metered rate service to 2,945 customers as of December 31, 2007. The number of customers is not expected to change substantially in the upcoming years, but East Pasadena estimates an additional ten customers using ¾-inch meters for test year 2009 based on estimated year 2008 data. The water system is supplied by three wells currently in active use that draw from the Raymond and San Gabriel Basins. The major well from the San Gabriel Basin produced 1,774.50 acre-feet of water in 2007 while the other wells produced 346.30 acre feet and 81.86 acre feet, respectively, from the Raymond Basin. East Pasadena also maintains emergency interties with the City of Pasadena, the City of Arcadia, and the Sunny Slope Water Company. There are three pressure zones in the system. Pressure Zone 1 is operated at a hydraulic gradient of 810 feet, Pressure Zone 2 at 730 feet, and Pressure Zone 3 at 604 feet. Booster pumps establish the hydraulic gradient line of each pressure zone and reservoirs in the system provide for fire flow, emergency, and operational storage. There are two Reservoirs capable of holding 750,000 gallons at the Mountain View and Duarte plant while two Reservoirs capable of holding 360,000 gallons each operate at the Woodward Plant. East Pasadena maintains approximately 39 miles of distribution and transmission pipeline ranging in diameter from 2 to 12 inches. Also, water quality is good and water treatment consists of chlorination. East Pasadena meets all provisions of the Commission's General Order No. 103.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on February 13, 2009. The Division and East Pasadena received three letters opposed to the rate increase.

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An informal public meeting was held Thursday, March 19th, 2009 at the Temple City High School located Temple City, CA. The meeting started at 6:40 PM with four customers in attendance. The Division representative, Terence Shia, explained

Commission procedures, as well as the purpose of the meeting. Then Mr. Morales made a presentation to explain the need for the rate increase followed by a presentation by Mr. Aldinger. 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 East Pasadena's revenues, expenses, investments and requested increase. The meeting adjourned at 7:40 PM.

DISCUSSION

The Division made an independent analysis of East Pasadena's operations. Appendix A shows East Pasadena's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009. East Pasadena 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 water, 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 East Pasadena. The utility's estimate of most of the expenses, excluding purchased water and 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 3% for each account. Division estimates operating expenses using a constant dollar averaging method to estimate Test Year (TY) 2009 expenses by applying a three-year average of recorded years 2006, 2007, and 2008 for the applicable expenses to arrive at TY 2009.

East Pasadena is a Class B water utility (less than 10,000 customers but more than 2,000). The Division's Utility, Audit Finance & Compliance Branch (UAFCB) has

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conducted an analysis of the financial market changes within the last year and risk faced by Class B utilities, and has determined that the appropriate Return on Rate base (ROR) is 10.80%. For Class B water utilities, the cost of capital is determined on a company specific basis, using company specific debt cost and capital structure. The UAFCB then determines the return on equity by averaging the recently authorized

Class A and C returns on equity (ROE). Recently authorized Class B ROR's confirm a 10.80% ROR as reasonable. Del Oro Water Company, another Class B Utility, recently accepted a 10.80% ROR. Using this figure, Division calculates a revenue requirement of \$2,196,500.

East Pasadena currently has no outstanding water compliance issues with DPH and maintains their water testing schedule. Also, no complaints due to water service or rates have been filed with the Commission's Consumer Affairs Branch. East Pasadena keeps up-to-date records with the Commission by providing completed annual reports as requested along with up-to-date tariff sheets for record keeping purposes. Also, during the rate case evaluation process, East Pasadena was responsive to queries made by the Division.

East Pasadena's current rate structure consists of two schedules: Schedule No. 1, General Metered Service, and Schedule No. 4, Private Fire Protection Service. The rates proposed by the Division are shown in Appendix B.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8-inch metered customer using 15 Ccf (One Ccf is equal to one cubic feet) would increase from \$28.26 to \$34.42, which is \$6.16, or 21.8% 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

East Pasadena has no outstanding compliance orders. The utility has been filing annual reports as required. As of October 2008, the California Department of Public Health (DPH) findings were that the system has no major deficiencies. DPH confirmed that East Pasadena has not had any major compliance issues. As such, DPH considers East Pasadena to be in compliance with all applicable water quality regulations and standards.

The Division determined that East Pasadena also needs to update the following tariff rules and forms: Rule 3 (Application for Service); Rule 5 (Special Information Required

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on Forms); Rule 7 (Deposits); Form No. 2 (Form for "Customer's Deposit Receipt"); and Form 3 (Form for "Bill for Service").

COMMENTS

Code §311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Code §311(g)(2) provides that this 30-day period may be waived or reduced upon stipulation of all parties in the proceeding.

The 30-day comment period for the draft resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from the date of mailing of this resolution to the parties.

FINDINGS

1. The Division made an independent analysis of East Pasadena's operations.
2. Appendix A shows East Pasadena's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009.
3. The Division staff reviewed operating revenues and expenses including purchased water, 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.
4. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.
5. The Division of Water and Audits recommended summary of earnings (Appendix A) is reasonable and should be adopted.
6. Staff conducted rate design in accordance with the Division's Standard Practice U-7-W to calculate the General Service Metered Rates in Appendix B.

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7. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
8. Staff has analyzed the historical power consumption, water delivered, and number of service connections in determining the Adopted Quantities in Appendix D.
9. The quantities (Appendix D) used to develop the Division of Water and Audits recommendations are reasonable and should be adopted.
10. East Pasadena Water Company needs to update the following tariff rules and forms: Rule 3 (Application for Service); Rule 5 (Special Information Required on Forms); Rule 7 (Deposits); Form No. 2 (Form for "Customer's Deposit Receipt"); and Form 3 (Form for "Bill for Service").

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to East Pasadena 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 Schedules 1, General Metered Service, and 4, Private Fire Protection Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. East Pasadena Water Company shall update the following tariff rules and forms: Rule 3 (Application for Service); Rule 5 (Special Information Required on Forms); Rule 7 (Deposits); Form No. 2 (Form for "Customer's Deposit Receipt"); Form No. 3 (Form for "Bill for Service").
3. 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 June 18, 2009; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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Appendix A					
East Pasadena Water Company					
Summary of Earnings					
Test Year 2009					
Item	Utility Estimated		Branch Estimated		Recommended
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
General Metered Sales	\$ 1,785,068	\$ 2,305,096	\$ 1,785,068	\$ 2,305,096	\$ 2,180,436
Private Fire	\$ 13,151	\$ 13,151	\$ 13,151	\$ 13,151	\$ 16,064
	\$ 1,798,219	\$ 2,318,247	\$ 1,798,219	\$ 2,318,247	\$ 2,196,500
Operating Expenses			398,281		
610 Purchased Water	\$6,556	\$6,556	\$ 6,556	\$ 6,556	\$ 6,556
615 Purchased Power	\$209,961	\$209,961	\$ 197,744	\$ 197,744	\$ 197,744
618 Other Volume Related Expenses	\$168,157	\$168,157	\$ 168,157	\$ 168,157	\$ 168,157
630 Employee Labor	\$259,775	\$259,775	\$ 259,775	\$ 259,775	\$ 259,775
640 Materials	\$46,724	\$46,724	\$ 41,687	\$ 41,687	\$ 41,687
650 Contract Work	\$88,198	\$88,198	\$ 84,099	\$ 84,099	\$ 84,099
660 Transportation Expenses	\$39,490	\$39,490	\$ 35,053	\$ 35,053	\$ 35,053
664 Other Plant Maintenance	\$28,464	\$28,464	\$ 24,841	\$ 24,841	\$ 24,841
670 Office Salaries	\$106,152	\$106,152	\$ 106,152	\$ 106,152	\$ 106,152
671 Management Salaries	\$183,340	\$183,340	\$ 183,340	\$ 183,340	\$ 183,340
674 Employee Benefits	\$101,693	\$101,693	\$ 101,693	\$ 101,693	\$ 101,693
676 Uncollectibles Expense	\$2,348	\$2,348	\$ 2,855	\$ 2,855	\$ 2,855
678 Office Services & Rentals	\$54,718	\$54,718	\$ 48,973	\$ 48,973	\$ 48,973
681 Office Supplies & Expenses	\$17,206	\$17,206	\$ 17,206	\$ 17,206	\$ 17,206
682 Professional Services	\$42,230	\$42,230	\$ 42,230	\$ 42,230	\$ 42,230
684 Insurance	\$89,529	\$89,529	\$ 89,529	\$ 89,529	\$ 89,529
688 Regulatory Commission Expense	\$12,270	\$12,270	\$ 10,886	\$ 10,886	\$ 10,886
689 General Expenses	\$50,130	\$50,130	\$ 50,130	\$ 50,130	\$ 50,130
Subtotal	\$ 1,506,941	\$ 1,506,941	\$ 1,470,906	\$ 1,470,906	\$ 1,470,906
Depreciation	\$ 192,854	\$ 211,665	\$ 192,854	\$ 211,500	\$ 211,500
Taxes other than Income	\$ 78,913	\$ 78,913	\$ 78,904	\$ 78,904	\$ 78,904
Income Taxes	\$ 23,451	\$ 207,495	\$ 23,451	\$ 207,495	\$ 173,355
Interest					
Total Deductions	\$1,802,159	\$2,005,014	\$1,766,115	\$1,968,805	\$1,934,665
Net Revenue	-\$3,940	\$313,233	\$32,104	\$349,442	\$261,835
Rate Base					
Average Plant	\$ 7,625,815	\$ 7,902,976	\$ 7,870,287	\$ 7,870,287	\$ 7,870,287
Ave. Accumulated Depreciation	\$ 3,990,138	\$ 4,216,696	\$ 4,169,873	\$ 4,169,873	\$ 4,169,873
Net Plant	\$ 3,635,677	\$ 3,686,280	\$ 3,700,414	\$ 3,700,414	\$ 3,700,414
Less Advances	\$ 5,370	\$ 5,095	\$ 5,095	\$ 5,095	\$ 5,095
Contributions	\$ 532,258	\$ 507,960	\$ 585,328	\$ 585,328	\$ 585,328
Deferred Income Tax	\$ 731,869	\$ 744,352	\$ 806,629	\$ 806,629	\$ 806,629
Unamortized Investment	\$ 7,120	\$ 6,233	\$ 6,233	\$ 6,233	\$ 6,233
Plus Working Cash	\$ 120,815	\$ 126,193	\$ 126,193	\$ 126,193	\$ 126,193
CWIP	\$ 37,169	\$ 25,000	\$ -	\$ -	\$ -
Rate Base:	\$ 2,517,044	\$ 2,573,833	\$ 2,423,322	\$ 2,423,322	\$ 2,423,322
Rate of Return	-0.16%	12.17%	1.32%	14.42%	10.80%

(END OF APPENDIX A)

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APPENDIX B

East Pasadena Water Company

Schedule No. 1

GENERAL METERED SERVICE

Test Year 2009

APPLICABILITY

Applicable to all metered water service

TERRITORY

The territory within and adjacent to the Cities of Arcadia and Temple City and adjacent to the Cities of Pasadena and San Gabriel, Los Angeles County, and as described on the service area map.

RATES

Quantity Rates:

All water, per 100 cu. ft.	\$ 1.47	(I)
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Service Charge:

	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 12.37	(I)
For 3/4-inch meter	\$ 18.55	
For 1-inch meter	\$ 30.91	
For 1-1/2-inch meter	\$ 61.83	
For 2-inch meter	\$ 98.92	
For 3-inch meter	\$185.48	
For 4-inch meter	\$309.13	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

SPECIAL CONDITIONS

1. A surcharge is included on each bill to recover under-collected memorandum accounts of \$142,679. The surcharge is \$0.061 per Ccf of water used. The surcharge will be collected over a 36-month period from the effective date of Advice Letter No. 65-A.
2. As authorized by the California Public Utilities Commission, all bills are subject to a temporary increase in the commodity rate of \$0.095 per Ccf for a period of 36 months effective July 25, 2006 intended to recover costs of abandoned well #10.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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(continued)

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APPENDIX B

East Pasadena Water Company

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

Test Year 2009

APPLICABILITY

Applicable to all privately-owned fire protection systems.

TERRITORY

Within the entire service area located within and adjacent to the Cities of Arcadia and Temple City and adjacent to the Cities of Pasadena and San Marino, Los Angeles County, and as described on the service area map.

RATES

Per Service
Per Month Charge

For each inch of diameter of fire sprinkler
service connection

\$ 10.30 (I)

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APPENDIX C

East Pasadena Water Company

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	\$	9.66	\$	12.37	28.0%
	For 3/4-inch meters	\$	14.49	\$	18.55	28.0%
	For 1-inch meters	\$	24.15	\$	30.91	28.0%
	For 1-1/2-inch meters	\$	48.28	\$	61.83	28.1%
	For 2-inch meters	\$	77.25	\$	98.92	28.1%
	For 3-inch meters	\$	144.84	\$	185.48	28.1%
	For 4-inch meters	\$	241.42	\$	309.13	28.0%
Quantity Charge:						
Potable Water	All use, per 100 cu. ft. . . .	\$	1.240	\$	1.470	18.5%
Private Fire Protection	Per inch, service connection	\$	8.43	\$	10.30	22.1%
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>	
3.17 (avg)	13.59		17.02	3.43	25.3%	
5	15.86		19.72	3.86	24.3%	
10	22.06		27.07	5.01	22.7%	
15	28.26		34.42	6.16	21.8%	
20	38.18		46.18	8.00	20.9%	
30	46.86		56.47	9.61	20.5%	
40	59.26		71.17	11.91	20.1%	

(END OF APPENDIX C)

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APPENDIX D

East Pasadena Water Company

ADOPTED QUANTITIES

Test Year 2009

1. Purchased Power

Total kWh to be Purchased	2,063,529
Estimated Cost Per kWh	0.0955
Total Cost	\$ 197,744

2. Water Estimated to be Sold (Ccf) 929,347

Estimated to be pumped (Ccf)	986,010
Estimated to be purchased (Ccf)	2,709

3. Payroll

Employee Labor	\$ 259,775
Office Salaries	\$ 106,152
Management Salaries	\$ 183,340

4. Payroll Taxes \$ 43,153

5. Property Taxes \$ 35,751

Service Connections - Meter Size

5/8 x 3/4"	1,317
3/4"	752
1"	679
1-1/2"	82
2"	87
3"	15
4"	1
Total Metered	2,933

Adopted Tax Calculation Test Year 2009

1. Operating Revenues	\$ 2,196,500
2. Expenses	\$ 1,470,906
3. Depreciation	\$ 211,500
4. Payroll Taxes	\$ 43,153
5. Property Taxes	\$ 35,751
6. Taxable Income for State Tax	\$ 435,190
7. State Tax (min 800)	\$ 38,471
8. Taxable Income for FIT	\$ 396,719

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9. Federal Tax

\$ 134,885

(END OF APPENDIX D)

SERVICE LIST FOR EAST PASADENA WATER COMPANY RESOLUTION

Larry Morales
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