

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



May 25, 2010

Draft Resolution W-4830
Agenda ID #9472

TO: All Interested Parties

Enclosed is draft Resolution W-4830 of the Division of Water and Audits. It was originally placed on the June 3, 2010 agenda, but has now been held until June 24, 2010 to allow adequate time for parties to comment. The Commission may act then on this resolution or it may postpone action until later.

When the Commission acts on a draft resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different resolution. Only when the Commission acts does the resolution become binding on the parties.

Parties to this matter may submit comments on this draft resolution. An original and two copies of the comments, with a certificate of service, should be submitted to:

Division of Water and Audits, Third Floor
Attention: Mike Miller
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Parties may submit comments on or before June 15, 2010. The date of submission is the date the comments are received by the Division of Water and Audits. Parties must serve a copy of their comments to the utility (Robert Bylsma - Attorney, Union Pacific Railroad Company, Keene Water System) on the same date that the comments are submitted to the Division of Water and Audits.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft resolution, a table of authorities and appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on the factual, legal, or technical errors in the draft resolution, and shall make specific reference to the record or applicable law. Comments which fail to do so will be accorded no weight and are not to be submitted.

Persons interested in comments of parties may write to Mike Miller or telephone him at (415) 355-5584.

/s/RAMI S. KAHLON

Rami S. Kahlon, Director
Division of Water and Audits

Enclosures: Draft Resolution W-4830
Certificate of Service
Service List

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

**RESOLUTION NO. W-4830
June 24, 2010**

R E S O L U T I O N

**(RES. W-4830), UNION PACIFIC RAILROAD COMPANY, KEENE
WATER SYSTEM (Keene). ORDER AUTHORIZING A RATE BASE
OFFSET REVENUE INCREASE, PRODUCING AN INCREASE IN GROSS
ANNUAL REVENUES OF \$36,194 OR 31.44%.**

SUMMARY

By Advice Letter (AL) 9 filed on February 22, 2010, Keene, a Class D water utility, requested a revenue increase of \$36,194 or 31.44% due to increase in rate base arising from the water plant additions ordered by Decision (D.) 06-07-034 dated July 20, 2006. Keene requested to collect the increased revenue via a surcharge of \$104 per month per customer. This resolution authorizes an increase in gross revenue of \$36,194 or 31.44% to be collected via a surcharge of \$69.34 per month per meter equivalent¹. The increase will not result in a rate of return greater than that last authorized for Keene.

BACKGROUND

Ordering Paragraph 6 of D.06-07-034, dated July 20, 2006, directed Keene to improve the distribution system serving Upper Keene and Lower Keene. Ordering Paragraph 8 of that decision authorized Keene to file a rate base offset to collect the associated revenue requirement via a surcharge.

Keene requests approval to increase the rate base by \$744,706 for its water plant additions. At the currently authorized rate of return of 2.39%, this increase in rate base results in an increase in the revenue requirements amounting to \$36,194 or 31.44%

¹ The meter equivalent is the charge to the smallest meter. Charges for larger meters are in direct proportion to their capacity relative to the smallest meter.

relative to revenues at present rates. Keene requests to collect the revenue via a surcharge of \$104 per month per customer.

Keene serves 29 customers. The present rates were established on January 21, 2009 by Advice Letter 7, a Consumer Price Index increase of \$4,925 or 4.1%.

NOTICE AND PROTEST

Notice of the proposed rate increase was mailed to customers on February 2, 2010. A protest was received on the 18th of February 2010 from a customer. The customer protest stated that the increase was unreasonable. Keene's response to the customer was received on the 24th of February 2010. Keene stated that the customer had not challenged the reasonableness of any of the construction costs, but the reasonableness of the impact on rates. Division of Water and Audits (DWA) agrees with Keene. However, as discussed below, DWA recommends changes that will lessen the impact on most customers.

DISCUSSION

DWA reviewed system schematics, contractor reports and invoices supporting expenditures for the distribution system improvements for Upper Keene and Lower Keene. DWA determined that the plant additions totaling \$744,706 are reasonable.

DWA verified the annual revenue requirement of \$36,194 based on the 2.39% rate of return and the 2.50% depreciation rate adopted by D.06-07-034.

Rate base offsets for water utilities are normally applied to base rates according to the adopted rate design rather than through a surcharge. However, Ordering Paragraph 8 of D.06-07-034 states that the revenue requirement is to be collected via a surcharge. Keene has requested a \$104 per customer surcharge which would apply equally regardless of meter size or the number of meters charged to a given customer. Keene's current rate design, adopted by D.06-07-034, allocates fixed charges by meter equivalents using the standard ratios given in Standard Practice U-7-W. DWA believes that a surcharge per meter equivalent² would allocate charges in a way consistent with the adopted rate design. DWA's approach is reasonable because the standard ratios are based on the capacity of the meter to deliver water.

² This is the method used for Safe Drinking Water Bond Act surcharges, which are also for the purchase of plant and usually quite substantial.

At the proposed rates, a customer with a single 5/8-inch x 3/4-inch meter will pay a monthly surcharge of \$69.34. The surcharges for each of Keene's available meter sizes are shown in the tariff in Appendix A.

COMPLIANCE

There are outstanding Commission orders requiring system improvements and reports from the utility. Keene has maintained a dialog with DWA on the status of improvements and it appears to be proceeding conscientiously to resolve the issues. The utility has been filing annual reports as required.

COMMENTS

Public Utilities Code Section 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. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this Resolution was neither waived nor reduced. Accordingly, this draft Resolution was mailed to all parties for comments. Since the surcharge is substantially higher for some customers than originally noticed, this draft was also mailed to all customers.

FINDINGS

1. Expenditures for completed projects totaling \$744,706 are reasonable.
2. An increase in the revenue requirement of \$36,194 or 31.44% accurately reflects the increase in rate base.
3. Revenue requirements for water rate base offsets are usually applied to base rates.
4. Decision 06-07-034 orders that the revenue requirement be collected via a surcharge.
5. A surcharge per meter equivalent is consistent with the current rate design.
6. The revenue requirement should be collected via a surcharge of \$69.34 per meter equivalent per month.

7. The Commission finds, after investigation by the Division of Water and Audits, that the rate increase hereby authorized is just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Union Pacific Railroad Company, Keene Water System, is authorized to file a supplemental advice letter incorporating the revised rate schedule attached to this resolution as Appendix A and to concurrently cancel its presently effectively Schedule 1, General Metered Service. The effective date of the revised schedule shall be five days after the date of filing.
2. 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 24, 2010; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

APPENDIX A

Keene Water System

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Service to the premises listed on Revised Exhibit No. 6 of D.06-07-037 in the communities of Keene and Woodford, in Kern County.

RATES

Quantity Rate:

For all water, per 1000 gallons	\$ 9.22
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Service Charge:	Per Meter <u>Per Month</u>	Rate Base <u>Surcharge</u>	
For 5/8 x 3/4-inch meter	\$ 96.95	\$ 69.34	(N)
For 3/4-inch meter	\$145.43	\$104.01	(N)
For 1-inch meter	\$242.38	\$173.34	(N)
For 1-1/2-inch meter	\$484.74	\$346.69	(N)
For 2-inch meter	\$775.59	\$544.70	(N)

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 No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished to the account of the landlord or property owner.

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution W-4830 on all parties in this filing or their attorneys as shown on the attached list:

Dated May 25, 2010, at San Francisco, California.

_____/s/JOSIE L. JONES

Josie L. Jones

NOTICE

Parties should notify the Division of Water and Audits, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

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DRAFT RESOLUTION W-4830**

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