

PUBLIC UTILITIES COMMISSION  
505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



December 22, 2011

Draft Resolution W-4901  
Agenda ID #10944

TO: All Interested Persons

Enclosed is draft Resolution W-4901 of the Division of Water and Audits authorizing a general rate increase for California Hot Springs Water Company – Water and Sewer Services. Draft Resolution W-4901 will be on the Commission's February 1, 2012 agenda. The Commission may act then on this resolution or it may postpone action until later.

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

Interested persons may submit comments on draft Resolution W-4901. An original of the comments, with a certificate of service, should be submitted to:

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

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

Interested persons must serve a written or electronic copy of their comments on the utility on the same date that the comments are submitted to the Division of Water and Audits. Interested persons may submit comments on or before January 20, 2012.

Comments should focus on factual, legal, or technical errors or policy issues in the draft resolution.

Persons interested in receiving comments submitted to the Division of Water and Audits may write to Carmen Rocha, email her at [mdc@cpuc.ca.gov](mailto:mdc@cpuc.ca.gov), or telephone her at (415) 703-2162.

/s/ RAMI S. KAHLON

Rami S. Kahlon, Director  
Division of Water and Audits

Enclosures: Draft Resolution W-\_\_\_\_\_  
Certificate of Service  
Service List



**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****DIVISION OF WATER AND AUDITS  
Water and Water Advisory Branch****RESOLUTION NO. W-4901  
February 1, 2012****R E S O L U T I O N**

**(RES. W-4901), CALIFORNIA HOT SPRINGS WATER COMPANY  
(Hot Springs Water or Company). ORDER AUTHORIZING A  
GENERAL RATE INCREASE, PRODUCING ADDITIONAL  
ANNUAL REVENUE OF \$8,118 OR 83.46% FOR WATER SERVICES  
AND \$8,784 OR 90.31% FOR SEWER SERVICES FOR TEST YEAR  
(TY) 2011.**

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**SUMMARY**

By Advice Letter (AL) 10 filed on August 13, 2010, and by AL 7-S filed August 20, 2010, Hot Springs Water seeks to increase its rates for both water and sewer services to recover increased operating expenses and earn an adequate return on its operating expenses.

For TY 2011, this resolution grants an increase in gross annual revenue of \$8,118 or 83.46% for water services and \$8,784 or 90.31% for sewer services. The increases will provide a rate of margin (return on operating expenses) of 20.00%. This resolution grants an interim flat rate structure for the Hot Springs Water for no less than a period of 12 months effective on the date the resolution is approved. The interim flat rate structure is granted because there is a lack of credible consumption data on which quantity rates can be designed.

This resolution grants Hot Springs Water a total increase in annual water and sewer revenue of \$16,903, from \$19,451 at present rates to annual revenue of \$36,354 at proposed rates, which is equivalent to an 86.70% increase from its existing rates.

**BACKGROUND**

Hot Springs Water, a Class D water utility, is requesting authority under Rule 7.6.2 of General Order (GO) 96-B, and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code (PU Code) to increase its water and sewer rates by a combined \$23,149 or 119% for TY 2011 providing a rate of margin of 20%. The requested rate increase is to recover increased operating expenses and to provide an adequate rate of margin. The Company has a relatively small amount of un-depreciated rate base and therefore using rate of return on its investment provides an inadequate means to compensate the owner.



**Present Revenue and Rates****Water & Sewer**

Hot Springs Water's request shows 2010 gross revenues of \$19,451 at present rates, (\$9,726 for potable water and \$9,726 for sewer water services) increasing to \$42,600 (an increase of \$23,149) at proposed rates.

The present rates for Hot Springs Water are pursuant to the Res. W-4008 that authorized a general rate increase of \$14,921 or 182% for TY 1996. The present rates became effective on April 7, 1997, by approval of AL 8 filed March 31, 1997, in response to Res. W-4008. AL 8 was a compliance filing putting tariff sheets into effect pursuant to the rates authorized by Res. W-4008.

Hot Springs Water currently provides water and sewer services to approximately 27 residential customers in the California Hot Springs, which is 25 miles southeast of Porterville, and in the vicinity in Tulare County. There are two customers that reside in California Hot Springs year-round. The remaining 25 customers are seasonal residents.

**Staff's Water and Sewer Estimated Revenue**

Branch's recommended revenue for California Hot Springs Water Company was based on a rate of margin (return on operating expenses) of 20.00% for test year (TY) 2011. Branch recommended water revenue of \$17,844 and a sewer revenue of \$18,510 as presented on Appendix A, on the Summary of Earnings.

**California Hot Springs Water and Sewer Systems**

The Company's water system consists of a set of five springs, two storage tanks, one water collection box, one booster pump, and a gravity-fed water distribution system.

The sewer system consists of a packaged aeration sewage plant, which requires sludge to be pumped out on an annual basis. The wastewater discharges are sprayed onto a set of ponds by means of biological treatment.

Both the water and sewer systems are at the end of their useful lives and are in need of capital improvements except for the sewer pipeline that was recently replaced by the owner. Staff recommends that an independent consultant be retained to evaluate both systems and prepare an assessment of the needed capital improvements, including an estimate of the costs involved.

**Notice and Protest, Field Investigation, and Public Meeting**

The Company served Advice Letters 10 and 7-W on its General Order 96-B service list on August 20, 2010. Two public notices were mailed to all Hot Springs Water's customer regarding the proposed increase in water and sewer rates. The first notice was mailed on



September 8, 2010, and the second notice was mailed on September 18, 2010.<sup>1</sup> The Division of Water and Audits (Division) received a total of ten communications from Hot Springs Water's 27 customers as a result of the public notices. California Hot Springs Water responded to the customer protests.

The letters oppose a rate increase from Hot Springs Water for the following reasons: 1) unreasonable water and sewer charges at low consumption levels; 2) lack of operation and maintenance of the water and sewer systems including low pressure and lack of company staff; 3) lack of updated customer's contact information from the Company; 4) customer's financial limitations; 5) incorrect rates referred in the customer's notices; 6) unreasonable proposed overall water and sewer charges; 7) proposed water rates that were greater than one and a half times the neighboring communities; 8) water should be free since the source of water is from a spring; and 9) due to the current economy's recession, a 40% return on investment is not fair and a 100% water rate increase is not justifiable. We address each of these issues below in our determination of just and reasonable rates for Hot Springs Water.

### **Field Investigation**

Division Staff (Staff) and the owner of Hot Springs Water inspected the water and sewer systems during the morning of April 9, 2011. Staff observed that the water and sewer pipelines are above ground. Staff recommends that the Company retain a consultant to perform an assessment, including an evaluation of whether the pipelines that are above ground can be installed below the frost line or be otherwise protected to prevent freezing in conformance with GO 103-A, Section III.3.A.(1).

Staff observed during the site visit that the pump was running continuously. The owner of the Company stated that the pump is turned on and continuously runs in order to deliver hot water to the customers. Operation of the pump 24 hours per day, 7 days per week results in purchased power expense that is quite high. Staff recommends that Hot Springs Water discontinue serving hot water to its customers. Hot Springs Water's tariff does not provide for the service of hot water to its customers.

### **Water System**

The water system is delivering hot water at a temperature above 100 degrees Fahrenheit. A pipe outlet from the tank to the creek discharges excess hot water that is stored in the tank into the creek. Staff took two pressure readings. The first one was taken at the secondary pump at 60 pounds per square-inch (psi), and the second was taken at the California Hot Springs Community Center at 40 psi. These readings conform to GO 103-A minimum

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<sup>1</sup> The first notice was mailed with incorrect figures for existing and proposed water and sewer rates. A second notice was mailed to reflect the correct figures.



pressure requirements (Section VII.6.A). Staff observed that some cabins have a pressurized storage tank outside.

### **Sewer System**

As the sewer system has reached the end of its useful life, the owner has begun replacing most of the sewer pipeline. It was noted in the Staff's inspection that not all the sewer pipelines have been replaced. For example, there is a section of sewer pipe underneath an abandoned cabin that was broken and sewer has spilled on the bank next to the creek.<sup>2</sup> All the sewage discharges into a packaged aeration waste water treatment plant located near the main road. According to the owner, all sludge from the treatment plant is hauled off-site on a yearly basis to the Tulare County treatment plant, and the treated effluent is sprayed on seven aeration ponds near the site.

### **Public Meeting**

An informal public meeting was held on April 9, 2011, following Staff's field investigation. The meeting was attended by 12 customers and it was held at the California Hot Springs Community Center at 4176 Hot Springs Drive, California Hot Springs, California. Division Staff explained to the participants the Commission's rate-setting procedures. The Hot Springs Water's owner cited justifications for the proposed rate increase. Staff and the Company's owner responded to various questions from the attendees. During the public meeting, the owner of Hot Springs Water outlined three major proposed projects for both systems as follows: 1) to replace all sewer lines; 2) to replace the catch basin that is leaking, and 3) to replace the storage tank that has algae growing inside.

During the public meeting, three residents requested information on a rate reduction for their water and sewer bills because of financial need.

PU Code Section 739.8(b) states that the Commission shall consider and may implement programs to provide rate relief for low-income ratepayers. Such requirement applies to all water utilities that are under the Commission's jurisdiction. However, in establishing the feasibility of rate relief, Section 739.8(d) provides that the Commission may take into account the ability of communities to support these programs. Since Hot Springs Water consists of 27 connections, financial support for a low-income program from the rest of the customers may prove an impediment to implementing a low-income program. Staff recommends that this issue be examined as part of any request for authorization to implement a general low income program pursuant to PU Code 739.8(b).

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<sup>2</sup> The Compliance and Enforcement Unit (Unit) of the Central Valley Regional Water Quality Control Board was informed of the sewage spillage. The Unit Staff inspected the Hot Springs Water sewer system and is drafting a report of its findings and pertinent enforcement actions, if any.



**Evaluation of Application**

Staff reviewed operating revenues and expenses including water production, purchased water, purchased power, volume related expenses, employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, management salaries, uncollectibles expenses, office services and rentals, office supplies and expenses, professional services, insurance, regulatory commission expenses, and general expenses.

**DISCUSSION****Hot Springs Water's Compliance with the California Safe Drinking Water Act**

Hot Springs Water is a Transient Non-Community Water System,<sup>3,4</sup> which is not required by law to be operated by a certified operator.<sup>5</sup> Transient Non-Community Water Systems do not consistently serve the same people, e.g., they serve customers who can vary such as seasonal vacation rental customers and customers who go to rest stops, campgrounds, and gas stations.

Staff contacted the Tulare County Health Environmental Department, the Local Primary Agency for Tulare County (Tulare County), to inquire about Hot Springs Water's compliance with the California Safe Drinking Water Act.<sup>6</sup> According to Tulare County, the last inspection of Hot Springs Water was on October 11, 2010, which shows the Company is in compliance with water quality monitoring and reporting. Tulare County also informed Staff of the annual charges to the water system, described in the operating expenses below. The Company is required to test samples for two types of contaminants in the water: 1) nitrate every year, and 2) Total Coliform Rule (TCR) every quarter.

**Hot Springs Water Consumption and Production**

The Hot Springs Water recorded amounts of water consumption for the year 2007 are 12,700 hundred cubic feet (Ccf) (9,499,600 gallons). Based on this yearly water consumption, the average monthly consumption for a Hot Springs Water customer is 39.19 Ccf per month.

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<sup>3</sup> California Code of Regulations, Title 22, Chapter 15, Article 1, Sections 64400 and 64401.85.

<sup>4</sup> A Community Water System is a public water system, which serves at least 15 service connections used by yearlong residents or regularly serves at least 25 yearlong residents. (CCR, Title 22, Ch.15, Article 1, Section 64400.10.)

<sup>5</sup> Tulare County Health Environmental Department has determined that a certified operator is not required by law to operate and maintain the Hot Springs Water System.

<sup>6</sup> California Department of Public Health delegates enforcement of the California Safe Drinking Water Act to county agencies. In this case, the relevant agency is the Tulare County Health Environmental Department.



Staff does not find the recorded water consumption figures credible given that most residents are seasonal, except for two-full time residents. The consequence of lack of reliable consumption data is addressed in the rate design discussion below.

### **Summary of Earnings**

The Division made an independent analysis of Hot Springs Water's expenses. Appendix A shows the Company's and Staff's estimated revenues and Commission recommended revenues in the Summary of Earnings table for TY 2011. Hot Springs Water requested figures were all from the year 2010. Therefore, DWA escalated these figures to the year 2011 by using a non-labor inflation rate of 4.9% and a labor inflation rate of 1.6%.

The Company is in agreement with Staff's recommended revenue requirement and the rates shown in Appendices B and C.

Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable.

Hot Springs Water filed for a general rate increase based on an average of the three-year period (2007 to 2009), there were no expenses incurred on a given year in recorded expenses in its Annual Reports and used an annual inflation factor of 2.80% for the 2010 to 2011 periods. Staff escalated Hot Springs' 2010 request estimate to the year 2011 by using a labor inflation rate of 1.6% and a non-labor inflation factor of 4.9%.

Staff or Branch estimated figures shown in the Summary of Earnings are based either on the three-year average expenses recorded on the Annual Reports to the Commission (2007 to 2009) or the latest incurred expenses indicated in Hot Springs Water's records to Staff during the site visit to the field in the office. Staff finds instances where Hot Springs Water recorded a zero expense in the Annual Report for one or two years.

### **Inflation Rates**

Staff used non-labor inflation rates based on the Division of Ratepayer Advocates' memorandum of March 1, 2011. Inflation factors of **6.2%** for 2008, **-3.6%** for 2009, **4.9%** for 2010, and a labor inflation rate of **1.6%** and a non-labor inflation rate of **4.9%** for 2011 are used to escalate historic expenses to test year 2011 estimates.



**Operating Expenses**<sup>7</sup>**Purchased Water Expense**

Hot Springs Water did not request purchased water expense for the 2011 test year. Hot Springs Water shows purchased water expenses for the water utility in its Annual Reports for 2007, 2008, and 2009. The 2010 Annual Report showed purchased water expenses of \$13,493.

Staff inquired whether Hot Springs Water is authorized to book purchased water under operating expenses. The Company did not provide justification for such expenses. Therefore, Staff recommends excluding purchased water from Hot Springs Water's operating expenses.

**Purchased Power Expense**

Hot Springs Water requested \$4,074 for purchased power expenses for both the water and sewer utilities based on a three-year average for the period 2007 to 2009 and applying an annual inflation factor of 2.80% for 2010.<sup>8</sup> DWA escalated this amount to \$4,274 using a non-labor inflation rate of 4.9 % for 2011. Staff verified the purchased power expenses with amounts that Hot Springs Water records in its books.

Staff finds that Hot Springs Water recorded purchase power is not consistent with reasonable water consumption amounts. Hot Springs Water's purchased power is based on the water pump running 24 hours per day, 7 days per week. Purchased power expense is significantly higher than need be if the water pump is run only when needed to meet water demand. The owner indicates that the hot water from the Hot Springs Water has always been served to the customers for historical reasons.

Staff recommends only one-third of Hot Springs Water's purchased power request should be included in rates. The recommended purchase power cost is allocated equally between the water and the sewer systems as discussed below.

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<sup>7</sup> Staff escalates Hot Spring Water's expense requests to bring them to a 2011 Test Year basis for comparison with Staff's estimated expenses. Staff allocates common expenses not specifically attributable to either the water or sewer utility (e.g., transportation expenses) on a 50%/50% basis given the comparable customer base and physical assets.

<sup>8</sup> Hot Springs Water purchases power from the Southern California Edison's Rate Schedule PA-1 for Agricultural and Pumping. The rate is based on customer usage of 70% or more of their electric bill to provide power for agricultural, water, or sewage pumping purposes, and none of the remaining load for domestic purposes. This rate schedule is not applicable when the monthly registered demand has, or is expected to, exceed 500 kW three times in any 12-month period.



**Purchased Power Expense for Water**

Staff recommends an estimate of \$713 for purchased power expenses for the water utility. Staff based this estimate on pumps running approximately 8 hours a day for approximately one-sixth of annual usage (customers may not spend all weekends at Hot Springs residences) for a seasonal customer using electricity for pumped water during a weekend or during a seasonal usage.

**Purchased Power Expense for Sewer**

Staff recommends \$713 for the sewer purchased power expenses. Staff based this estimate on the sewer pump running approximately 8 hours a day for approximately one-sixth of annual usage (customers may not spend all weekends at Hot Springs Water residences) for a seasonal customer using electricity from the pump during a weekend or during a seasonal usage.

**Other Volume Related Expenses**

Hot Springs Water requests \$903 for other volume-related expenses for both the water and sewer expenses. Hot Springs Water's request is based on the average of recorded expenses for 2007 to 2009 and escalated to 2010 using an inflation factor of 2.80%. DWA escalated the Company's requested amount for the year 2011 to \$947 using a non-labor inflation rate of 4.9%. Staff recommends an amount based on an estimate of chemicals and supplies that should be recorded in this account.

**Other Volume-Related Expenses for Water**

Staff finds that Hot Springs Water's does not provide permanent treatment to the drinking water system requiring chemical expenses, the primary component in other volume-related expenses. Therefore, Staff does not agree with Hot Springs Water requested amount for other volume related expenses. However, in the event of a positive bacteriological contamination, the water system may need to be chlorinated.

Therefore, staff recommends \$330 for other volume-related expenses for water. Staff based this estimate on Hot Springs Water's recorded expenses for the last two years (2009 to 2010) and escalated to the year 2011 using the non-labor inflation factor of 4.9%.

**Other Volume-Related Expenses for Sewer**

Staff recommends \$330 for other volume-related expenses for the sewer service. Hot Springs Water is required to spray herbicide around the packaged wastewater treatment plant on a periodic basis. Hot Springs Water also incurs chemical expenses when it pumps out the treated wastewater discharge effluent and spray on ponds. Staff based this estimate on the last two-year average of recorded Annual Reports expenses for 2009 to 2010 escalated to 2011 using an inflation rate of 4.9%. No expenses for this category were recorded in Hot Springs Water's Annual Reports for 2007 and 2008.

**Employee Labor**

Hot Springs Water does not request employee labor expenses for either the water or sewer utility.



However, Staff recommends that the Company hire an employee to assist the owner who is currently responsible for multiple job tasks. Hot Springs Water has not been providing satisfactory service quality as a result. At the public meeting, customers complained about the poor service Hot Springs Water provides. Staff has called the Company's office during regular business hours and the calls have gone unanswered, although the owner claims he responds promptly when a customer calls the Company to report a problem.

Staff recommends that Hot Springs Water hire an additional on-call non-certified operator to assist in the operation and maintenance of the water and sewer systems. The employee should be working for the Company on an on-call basis only and when the owner is unable to work on the sewer and water systems. Since the system service is deteriorating, the Company will need trained staff to acquire knowledge on the operation and maintenance of the system. It appears that the owner needs an extra person to assist him with the water and sewer operation and maintenance tasks. Staff's estimate for Employee Labor for water and sewer utility expenses is based on a portion of the total expenses for management salaries that Staff recommends. Staff's basis for this estimate is that an on-call employee will be needed when a major or critical water utility improvement or replacement or maintenance task would be required for either the water or sewer utilities.

The Company should record such costs under its Contract Labor Memorandum Account. Following twelve months of recorded expenses, Hot Springs Water should file a Tier 3 advice letter to amortize the Contract Labor Memorandum Account and to request an adjustment to base rates to reflect the added employee labor expense.<sup>9</sup> When Hot Springs Water files for amortization of these expenses, it shall have the burden of establishing that: (1) the costs recorded in the memorandum account have not been recovered through otherwise authorized rates; (2) recovery of the types of costs recorded in the account -- in addition to otherwise authorized rates -- is appropriate; (3) the utility acted prudently when it incurred these costs; and (4) the level of costs is reasonable.

### **Materials**

Hot Springs Water requests \$1,698 for Materials Expenses for both water and sewer.<sup>10</sup> Hot Springs Water based this amount on the average of recorded amounts for the three years 2007 to 2009 and applied a non-labor rate of inflation factor of 2.80% for 2010. DWA escalated the company's requested amount to \$1,781 by using a non-labor inflation factor of 4.9% for 2011. Branch computed a total amount for the last three year average equal to \$1,651 for Materials expenses for both water and sewer. This estimate is based on California Hot Springs' recorded amounts in its Annual Reports (2007 to 2009). Staff recommends a

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<sup>9</sup> Memorandum accounts were authorized by the Commission under Resolution W-4467, April 22, 2004, restricted to the Operation and Maintenance portion of contract labor.

<sup>10</sup> A portion of the materials expense request includes estimated expenses for contract work discussed below.



lower amount than this estimate since Hot Springs Water has been incorrectly recording other expenses in this account as explained below.

Hot Springs Water incurred materials expenses including replacement of portions of pipelines, temporary pumping services, and other similar type of expenses. Staff finds that although Hot Springs Water is recording high amounts of materials expenses in its books, the figures audited for the year 2007 and the field inspection site visit do not justify such expenses. Staff finds that contract work for specialized tasks is being incorrectly recorded under the materials expense account.

#### **Materials Expenses for Water**

Staff recommends \$722 for materials expenses for the water utility. Staff based this estimate on Hot Springs Water' recorded expenses (excluding contract work) for the last two years (2009 to 2010) and escalated to the year 2011 using the non-labor inflation factor of 4.9%.

#### **Materials Expenses for Sewer**

Staff recommends \$722 for materials expenses for sewage expenses. Staff also based this estimate on Hot Springs Water' recorded expenses (excluding contract work) for the last two years (2009 to 2010) and escalated to the year 2011 using the non-labor inflation factor of 4.9%.

#### **Contract Work**

Hot Springs Water requests \$323 for contract work expenses for both the water and sewer utility for the year 2010. Staff escalated this estimate, \$328, using a labor inflation rate of 1.6% for 2011. Staff estimates a three year average (2007 to 2009) of \$592 for California Hot Springs Water Contract work based on one year's recorded expenses in 2007 from its Annual Report. Staff recommends a total amount of \$641 for contract work for both water and sewer expenses for the reasons discussed below.

Staff finds Hot Springs Water is incorrectly recording contract work expenses under the materials expenses account. Staff recommends that Hot Springs Water record contract work expenses in the contract work account and material expenses in the appropriate account. Staff finds that the Company is required to hire two different types of contractors for the sewer and water utilities. Hot Springs Water hires contractors on a regular basis to defrost the water pipelines during the winter and to pump out sludge from the sewage treatment plant. Staff finds that contract work is a necessary expense for Hot Springs Water.

#### **Contract Work Expenses for Water**

Staff recommends \$363 for contract work expenses for the water utility. Staff based this estimate on invoice amounts paid for the year 2007 that Hot Springs Water incurred for hiring contractors to perform specialized tasks. Staff added the average contract expense amount for 2007-2009 recorded under materials expense to the recorded 2007 contract expense to arrive at its estimate for contract work expenses.



**Contract Work Expenses for Sewer**

Staff recommends \$278 for contract work expenses for the sewer utility. Staff based this estimate on invoice amounts paid for the year 2007 that Hot Springs Water incurred for hiring contractors to perform specialized tasks. Staff made a similar adjustment to reflect contract work recorded under materials expenses.

**Testing Expenses**

Hot Springs Water is not requesting testing expenses for either the water or sewer utility. However, the Company has been incorrectly recording testing expenses from two agencies under the Regulatory Commission Expenses account. Staff recommends that Hot Springs Water record all environmental health related permits expenses under the Water Testing account.

**Testing Expenses for Water**

Staff recommends \$798 for water testing expenses. These expenses include an annual permit fee from the California Department of Public Health (CDPH) and laboratory expenses for quarterly bacteriological water quality testing.

**Testing Expenses for Sewer**

Staff recommends \$1,394 for an annual permit from the State Water Resource Control Board (Water Board) for treated wastewater effluent discharges. The Water Board indicates that this is a set fee it charges Hot Springs Water on an annual basis.

**Transportation Expenses**

Hot Springs Water requests \$1,329 for transportation expenses for both the water and sewer utilities. Hot Springs Water based this amount on the average recorded expenses for 2007 to 2009 and escalated for 2010 using a non-labor rate of inflation factor of 2.80%. Staff escalated this amount to \$1,366 using an inflation factor of 4.9% for 2011.

Staff estimates an amount of \$1,394 for Transportation Expenses based on the three year average (2007 to 2009). Staff recommends the Company's estimated amount, as escalated, for transportation expenses. Transportation logs do not exist for allocating expenses between the water and sewer utilities. As such, Staff evenly allocated the estimated amount between the two utilities. Hot Springs Water has a truck that the owner uses for field work, obtaining material supplies, and transporting water and sewer samples to the Tulare County Environmental Health laboratory.

**Transportation Expenses for Water**

Staff recommends \$697 for transportation expenses for the water utility. Staff finds that Hot Springs Water's transportation expenses, including truck, license plate renewal fees, gas, and maintenance expenses, are reasonable.

**Transportation Expenses for Sewer**

Staff recommends a similar \$697 for transportation expenses for the sewer utility.



**Other Plant Maintenance**

Hot Springs Water requests \$2,923 for other plant maintenance expenses for both the water and sewer utilities. Staff escalated this amount to \$3,066 using a non-labor inflation rate of 4.9% for 2011. Staff estimates an amount of \$2,853 for Other Plant Maintenance Expenses based on the three year average (2007 to 2009). Staff recommends a lower amount as explained below.

Staff finds Hot Springs Water requires most of its meters to be replaced often since they deteriorate faster than normal due to high temperature of the spring water. Hot Springs Water meter replacement expense for the year 2007 consisted of \$300. Staff observed that the water and sewer utilities are not being maintained on a regular basis. The Company has not provided justification for the other plant maintenance expense. Therefore, staff recommends only \$1,078 for other plant maintenance. Staff based its estimate on Hot Springs Water's recorded expenses for 2009 and 2010 and escalated it to the year 2011 using 4.9% as the non-labor inflation factor.

Hot Springs Water's infrastructure is in need of additions and capital improvements as the water and sewer systems are at the end of their useful life. Therefore, Staff recommends Hot Springs Water retain a consultant to provide an assessment of upgrades to its plant that are required to provide reliable service. As discussed above, in addition to retaining a consultant, Hot Springs Water should also hire an additional non-certified operator to assist in the operation and maintenance work.

Staff recommends that if Hot Springs Water incurs expenses related to Other Plant maintenance expenses, the Company should track and record the additional expenses under its established Memorandum Account for Contract Labor, restricted to the operation and maintenance portion of contract labor. Hot Springs Water may recover such costs after CPUC review and audit of the reasonableness of the costs recorded therein. (See the discussion above under the Employee Labor section with respect to Hot Spring's burden in order to obtain recovery of these expenses.)

Following twelve months of recorded expenses, Hot Springs Water should include in its Tier 3 advice letter for amortization of contract labor for operations the amortization of contact labor associated with maintenance. As is the case for contract labor for operations, Hot Springs Water should request an adjustment to base rates to reflect increases in other plant maintenance expenses.

**Other Plant Maintenance Expenses for Water**

Staff recommends \$539 for Other Plant Maintenance expenses for water. Staff based this estimate on Hot Springs Water' recorded expenses for the last two years (2009 to 2010), including an escalation to the year 2011 using 4.9% as the non-labor inflation factor.



**Other Plant Maintenance Expenses for Sewer**

Staff recommends \$539 for Other Plant Maintenance expenses for sewer. Staff based this estimate on Hot Springs Water's recorded expenses for the last two years (2009 to 2010), including an escalation to the year 2011 using 4.9% as the non-labor inflation factor.

**Management Salaries**

Hot Springs Water requests \$12,000 for management salaries for both the water and sewer utilities. Staff escalated this amount to \$12,192 using an inflation rate of 1.6% for 2011. As escalated, Staff agrees with Hot Springs Water's request. Management salaries have not been previously authorized for Hot Springs Water. Staff finds that the Company's request is a reasonable amount for management salaries based on the multiple tasks performed by the owner, including: distribution operator; wastewater operator; construction and repair worker; and office administrator. Staff recommends allocating management salaries between the water and sewer utilities on a 50%/50% basis.

**Uncollectible Expenses**

Hot Springs Water requests \$1,675 for un-collectible expenses for both the water and sewer utilities. Staff escalated this amount to \$1,757 using an inflation rate of 4.9% for 2011. Staff was informed that uncollectible expenses for two customers not paying their water and sewer bills are 10 % or more of the present revenue. Staff recommends allowing 2.5% of the total proposed operating revenue, or \$909, for the uncollectible expenses for both water and sewer. Staff recommends that Hot Springs Water enforces its tariffs by increasing its efforts to collect customer's past due amounts. Customers with unpaid utility bills may be subject to disconnection following notice pursuant to Hot Springs Water's Tariff Rule 11.

**Uncollectible Expenses for Water**

Staff recommends \$446 for uncollectible expenses for water. This estimate is based on a 2.5% of the total proposed water revenues for Hot Springs Water.

**Uncollectible Expenses for Sewer**

Staff recommends \$463 for uncollectible expenses for sewer. This estimate is based on a 2.5% of the total proposed sewer revenues for Hot Springs Water

**Office Services and Rentals**

Staff finds Hot Springs Water incurs on a regular basis paper, printer ink, mailing, and other related supplies under the office supplies and expenses account.

Hot Springs Water estimates an amount of \$998 in 2010 for office services and rentals expenses. DWA escalated this amount to \$1,014 using an inflation rate of 1.6% for 2011. The estimate is based on the average of the last three years recorded expenses escalated to the year 2011. Staff recommends allowing Hot Springs Water's requests as follows: \$507 for the water and \$507 for the sewer expenses. The Hot Springs resort leases office space to Hot Springs Water and charges rent on a monthly basis. Hot Springs Water also incurs expenses for office services including administrative services, billing and related tasks.



**Office Supplies and Expenses**

Hot Springs Water requests \$621 for office supplies and expenses for both water and sewer utilities. DWA escalated this amount to \$651 using an inflation rate of 4.9% for 2011.

Staff recommends instead, an amount of \$182 for the water and a like amount for the sewer utility for office supplies and expenses. The estimate was based on the last two-year average recorded expenses (2009 to 2010) and escalating the 2010 year expense to the year 2011 using a non-labor inflation rate of 4.9%.

**Professional Services**

Hot Springs Water requests \$948 for professional services expenses for both the water and sewer utilities. Staff escalated Hot Springs Water requested amount to \$963 using an inflation rate of 1.6% for 2011. The Company requires the services of a certified public accountant and a lawyer which it records under the professional services expenses account.

Staff recommends a total of \$852 based on the 2010 recorded professional services expense which was escalated to 2011 using a 1.6% labor inflation rate. Staff then allocated the estimated amount evenly between the water and sewer utility. Since the last three-years professional expenses show a downward trend, staff used the most recent recorded expense. Therefore, Staff recommends \$426 for the water utility, and a like amount for the sewer utility for professional services expenses.

**Insurance**

Hot Springs Water requests \$2,261 for insurance expenses for both the water and sewer utilities. Staff escalated the Company's requested amount to \$2,324 using the Consumer Price Index (CPI) of 1.5% for 2011.

Staff finds that Hot Springs Water has two types of insurance expenses which are each paid once per year.<sup>11</sup> Staff recommends a total amount of \$2,542 which was based on the last year recorded expense escalated to the year 2011 using a CPI<sup>12</sup> of 1.5%. Therefore, Staff recommends \$1,271 for insurance expenses for the water utility's expense and a like amount of \$1,271 in insurance expense is allocated to the sewer utility.

**Regulatory Commission Expenses**

Hot Springs Water requests \$2,540 for regulatory commission expenses for both the water and sewer utilities. Staff escalated Hot Springs Water requested amount to \$2,664 using an inflation rate of 4.9% for 2011. Staff finds that Hot Springs Water has been incorrectly recording CDPH's annual inspection and State Water Resources Control Board (SWRCB)

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<sup>11</sup> Hot Springs Water requires robbery and theft insurance and car insurance.

<sup>12</sup> The Consumer Price Index figure comes from the Memorandum from Division to all Class B, C, and D Water and Sewer Utilities, January 28, 2011.



sewer permit fees in this account. Staff recommends that Hot Springs Water records these two expenses under the water testing sub-account.

Staff estimated an amount of \$2,459 recorded on the Hot Springs Water's 2010 Annual Report for Regulatory Commission expenses. Instead, Hot Springs Water should have recorded an amount of \$609 for Regulatory Commission Expenses. Staff subtracted the CDPH and the SWRCB permit fees of \$1,850 from Hot Springs Water 2010 Annual Report.

Staff then subtracted the CDPH and the SWRCB permits fees of \$1,850 from Hot Springs Water's requested amount of \$2,664. The resulting \$814 is allocated equally between the water and sewer utility's regulatory commission expenses. Therefore, Staff recommends \$407 for the water and a like \$407 for the sewer utility regulatory commission expenses.

#### **Regulatory Commission Expenses for Water and Sewer**

Staff recommends \$407 for the water utility and \$407 for the sewer utility in regulatory commission expenses. These figures are based on expenses billed by Hot Springs Water's consultant who prepared the general rate case documents that were filed with the Commission. Hot Springs Water also incurs other related expenses when it files compliance filings with the Commission on a regular basis. Staff's recommended amount includes consultant fees and costs for related expenses for compliance filings with the Commission.

#### **General Expenses**

Hot Springs Water requests \$798 for general expenses for both the water and sewer utilities. Staff escalated this amount to \$837 for 2011 using the inflation rate of 4.9%.

Staff finds that the company has not recorded general expenses under the general expenses account for the year 2010 and so a three-year average can not be estimated. Therefore, staff based the Company's request on 2009 recorded expenses, escalated using a non-labor inflation rate for 2010 and 2011.

Staff finds Hot Springs Water incurs expenses for advertisements, subscriptions and water association dues. Staff recommends \$300 for water and \$300 for sewer general expenses.

#### **Revenues**

Staff finds that Hot Springs Water's present revenues are significantly lower than the total operating expenses that the company needs to improve service quality.

Hot Springs Water's present revenue is \$9,726 for the water and \$9,726 for the sewer expenses. The Company requests an increase to \$42,600 in proposed total revenues. Staff recommends proposed revenues of \$17,844 for the water utility and \$18,510 for the sewer utility for a total increase to \$36,354. Staff audited the amounts that were included in the Company's request that were submitted by its consultant.



**Average Plant**

Hot Springs Water's plant is nearly fully depreciated which means that the plant is reaching the end of its useful life, except for the recently replaced sewer pipelines. Hot Springs Water estimates that the water system's average plant (gross plant before accumulated depreciation) is \$38,000, and that the sewer system's average plant is \$24,443.

**Rate Base**

Since the water and sewer system's average plant is nearly fully depreciated, it no longer provides a basis on which a reasonable return calculation can be based. However, Hot Springs Water can earn a reasonable return on the operating expenses as authorized by the Commission in Decision (D.) 92-03-093.

**Rate of Margin**

Two methods available for setting rate-making revenues are: (1) Rate of Return, and (2) Rate of Margin. Per D.92-03-093, dated March 31, 1992, the Division of Water and Audits must recommend the method that produces the higher revenues. Staff has determined that the rate of margin produces the higher revenues. Therefore, Staff recommends a rate of margin should be adopted in calculating Hot Springs Water's recommended rates.

Hot Springs Water requests a rate of margin of 20%. The Division of Water and Audits' Utility Audit, Finance & Compliance Branch (UAFCB) recommends a rate of margin of 24.89% for a Class D water utility. Since Hot Springs Water is requesting a rate of margin of 20%, Staff recommends rates are based on a 20% rate of margin.

**Water Rate Structure**

Hot Springs Water's existing rate structure for water is flat-rate service under Schedule No. 2 Flat Rate Service. The present flat-rate service for a water customer is \$17.00. Since Hot Springs Water's consumption figures are not credible and cannot be relied on to design quantity rates, Staff recommends an interim flat-rate structure for the water service. Staff recommends that Schedule No. 1, General Metered Service, for water should be deleted at present.

Staff recommends that the flat-rate structure remain in place until Hot Springs Water submits 12-months of actual water consumption for the 27 water system connections and the Commission has had an opportunity to review and design a quantity rate. Once Hot Springs Water has 12 months of recorded consumption data, it should file a Tier 3 advice letter requesting a revised rate design based on a monthly meter charge and quantity rate.

Staff proposes an interim flat rate of \$55.07 for a customer per month as shown in Appendix B. At the recommended flat rates, proposed revenues will increase by \$8,118 or 83.46% for TY 2011.

**Sewer Rate Structure**

Hot Springs Water's rate structure for sewer is shown on Schedule No. 1 General Residential Service. The rates proposed by Staff are shown in Appendix C. At the recommended rate of margin the increase in revenue will be \$8,784 or 90.31% for test year



2011. The present rate for a sewer customer is \$35.70. Staff estimates a proposed rate for a sewer customer of \$57.13, which represents a 60.03% increase rate. A comparison of Hot Springs Water's customer bill at present and recommended rates is shown in Appendix D.

### **COMPLIANCE**

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. However, Hot Springs Water must file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules and forms in its tariff book to meet with the current Commission standards: Title Page; Schedule UF, Surcharge to Fund Public Utilities Commission 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 Extension; and 16, Service Connections, Meters, and Customer's Facilities; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

The utility must file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules and forms in its sewer tariff book to meet with the current Commission standards: Title Page; Preliminary Statement; Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Schedule LC, Late Payment Charge; Rules 1, Definitions; 2, Description of Service; 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extension; 16, Service Connections, Meters, and Customer's Facilities; 17, Standards for Measurement of Service; 18, Meter Tests and Adjustment of Bills for Meter Error; 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; 20, Limitations on Wastes Discharges into the Utility's Sewer System; and 21, Commercial, Institutional, and Industrial Wastes; and Forms 1, Application for Sewer Service; 2, Customer's Deposit Receipt; 3, Bill for Service; 4, Main Extension Contract – Individuals; and 5, Main Extension and/or Special Sewer Facilities Contract.

### **COMMENTS**

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

The draft resolution was served on the utility and all those who communicated concerns to the Division questioning the rate increase or who requested a copy. The draft resolution was made available for public comment on December 22, 2011. Comments were received from \_\_\_\_\_ on \_\_\_\_\_.



**FINDINGS AND CONCLUSIONS**

1. California Hot Springs Water Company currently serves potable water and sewer service to approximately 27 metered customers in California Hot Springs, which is 25 miles southeast of Porterville, and in the vicinity in Tulare County.
2. California Hot Springs Water Company filed Advice Letter (AL) 10 on August 13, 2010, requesting authority to increase its water rates by \$9,726 Test Year 2011.
3. California Hot Springs Water Company filed AL 7 on August 20, 2010 to increase its sewer rates by \$9,726 for Test Year 2011.
4. California Hot Springs Water Company's present water and sewer rates became effective on April 7, 1997, pursuant to Resolution No. W-4008, which authorized a general rate increase of \$14,921 or 182% for Test Year 1996.
5. Two notices to the public regarding the water and sewer general rate increases were mailed to each customer. The first notice was mailed on September 8, 2010, and the second notice was mailed on September 18, 2010. The first notice was mailed with incorrect figures. A second notice was mailed to correct those figures.
6. The Division of Water and Audits received ten communications from California Hot Springs Water Company's customers protesting the water and sewer rate increases. California Hot Springs Water Company responded to the customer protests.
7. The Division based its estimates for the operating expenses by either taking the average of the three-year periods (2007-2009) recorded expenses or the latest incurred expenses indicated in the Hot Springs Water's records to Staff during the site visit to the field office and applying forecasted inflation factors, 1.6% for labor and 4.9% for non-labor for 2011. Staff finds instances where Hot Springs Water recorded a zero expense in the Annual Report for one or two years of the three-year period.
8. Two California Hot Springs Water customers are not paying their water and sewer bill, thus the Uncollectible Account is 10 % or more of the present revenue. The two California Hot Springs Water Company customers may qualify for rate relief as low income rate payers pursuant to PU Code 739.8(b).
9. California Hot Springs Water Company should hire a consultant to provide the Company with an assessment of upgrades to its plant in order to provide reliable service.
10. California Hot Springs Water did not provide justification for purchased water expenses and therefore staff recommends excluding purchased water from California Hot Springs Water's operating expenses.



11. Staff based estimated purchased power expenses for water and sewer by proportioning seasonal customer's water consumption to exclude continuous pumped hot water. Staff recommends \$713 for water and \$713 for sewer for purchased power expenses.
12. Staff recommends \$330 for water utility and \$330 for sewer utility for other volume related expenses. Hot Springs Water does not provide permanent treatment to the drinking water system requiring chemical expenses, the primary component in other volume-related expenses. Hot Springs Water is required to spray herbicide around the packaged wastewater treatment plant on a periodic basis, and incurs chemical expenses when it pumps out the treated wastewater discharge effluent and spray on ponds.
13. Staff recommends that the Company hire an on-call employee to assist the owner who is currently working multiple job positions. Hot Springs Water has not been providing satisfactory service quality as a result. Staff's estimate for Employee Labor for water and sewer utility expenses is based on a portion of the total expenses for management salaries that Staff recommends. Staff's basis for this estimate is that an on-call employee will be needed when a major or critical water utility improvement or replacement or maintenance task would be required for either the water or sewer utilities.
14. Staff recommends \$722 for the water utility and \$722 for the sewer utility for Hot Springs Water's material expenses.
15. Staff recommends \$363 for the water utility and \$278 for the sewer utility for Hot Springs Water's contract work expenses. Staff finds that the Company is required to hire two different types of contractors for the sewer and water utilities. Hot Springs Water Company hires contractors on a regular basis to defrost the water pipelines during the winter and to pump out sludge from the sewage treatment plant.
16. Staff recommends \$798 for the water utility and \$1,394 for the sewer utility Hot Springs Water's testing expenses. Staff recommends that Hot Springs Water record all environmental health related permits expenses under the Water Testing account.
17. Staff recommends \$697 for the water utility and \$697 for the sewer utility Hot Springs Water's transportation expenses. Staff finds that Hot Springs Water has a truck that the owner uses for field work, obtaining material supplies, and transporting water and sewer samples to the Tulare County Environmental Health laboratory.
18. Staff recommends \$539 for the water utility and \$539 for the sewer utility Hot Springs Water's other plant maintenance expenses. Staff finds Hot Springs Water requires most of its meters to be replaced often since they deteriorate faster due to the high temperature of the spring water. Hot Springs Water meter replacement expense for the year 2007 consisted of \$300. Staff observed that the water and sewer utilities appear as not maintained on a regular basis.



19. Staff recommends \$6,096 for the water utility and \$6,096 for the sewer utility Hot Springs Water's management salaries expenses. Staff finds that the Company's request is a reasonable amount for management salaries based on the multiple tasks performed by the owner, including: distribution operator; wastewater operator; construction and repair worker; and office administrator.
20. Staff recommends \$446 for the water utility and \$463 for the sewer utility for Hot Springs Water's uncollectible expenses. Staff's estimate is based on 2.5% of proposed revenues.
21. Staff recommends \$507 for the water utility and \$507 for the sewer utility for Hot Springs Water's office services and rentals expenses. The estimate is based on the average of the last three years of the office services and rentals expenses escalated to the year 2011.
22. Staff recommends \$182 for the water utility and \$182 for the sewer utility for Hot Springs Water's office supplies and expenses based on the average of the Company's last two-year expenses, from 2009 to 2010 and escalating the 2010 year expense to the year 2011 using 4.9% for non-labor escalation factor.
23. Staff recommends \$426 for the water utility and \$426 for the sewer utility for Hot Springs Water's professional services expenses. The estimate was based on the most recent recorded expenses from Hot Springs Water.
24. Staff recommends \$1,271 for the water utility and \$1,271 for the sewer utility Hot Springs Water's insurance expenses. Staff finds that Hot Springs Water has two types of insurance expenses which are each paid once per year. Staff used 2010 recorded amounts to estimate 2011 insurance expenses.
25. Staff recommends \$407 for the water utility and \$407 for the sewer utility for Hot Springs Water's regulatory commission expenses. Staff finds that Hot Springs Water has been recording CDPH annual inspection and Water Board sewage permit fees in this account. Staff recommends that Hot Springs Water record in the appropriate account these two expenses under the water testing sub-account of the contract work account.
26. Staff recommends \$300 for the water utility and \$300 for the sewer utility for Hot Springs Water general expenses. Staff finds Hot Springs Water incurs expenses under general expenses for advertisements, subscriptions and water association dues.
27. The Division used annual reports for expenses, when actual bills were not available.
28. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.



29. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
30. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
31. Hot Springs Water should file actual water consumption data for a 12-month period of Hot Springs Water's 27 connections.
32. Hot Springs Water should revise the appropriate rules and forms in its water tariff book to meet with the current Commission standards.
33. Hot Springs Sewer should revise the appropriate rules and forms in its sewer tariff book to meet the current Commission standards.
34. The Division of Water and Audits recommends that an independent consultant evaluates both systems and prepares an assessment on the needed capital improvements including an estimate of the costs involved and any plumbing code violations.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to California Hot Springs Water Company to file supplemental advice letters with the revised rate schedules consistent with the Summary of Earnings attached to this resolution as Appendix B and to concurrently cancel its presently effectively Schedule No. 2, Flat Rate Service for water and Schedule No. 1, General Residential Service for sewer. Schedule No. 1, General Metered Service, for water is deleted. The effective date of the revised schedules shall be five days after the date of filing
2. California Hot Springs Water shall remain on a flat rate structure until it submits 12-months of actual water consumption for the 27 water system connections and the Commission has had an opportunity to review and design a quantity rate.
3. California Hot Springs Water Company should file a Tier 3 advice letter proposing a revised rate design to the adopted flat-rate service based on a monthly meter charge and a quantity rate once it has 12 months of actual consumption data.
4. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
5. California Hot Springs Water Company shall file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules and forms in its water tariff book to meet with the current Commission standards: Title Page; Schedule UF, Surcharge to Fund Public Utilities Commission 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 Extension; and 16, Service Connections, Meters, and Customer's Facilities; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

6. After a period of twelve months of recorded expenses incurred to: 1) retain a consultant to provide upgrades assessment(s), 2) add contract labor associated with maintenance and operations through the retention of an on-call employee, California Hot Springs Water Company shall file a Tier 3 advice letter to recover the costs of retaining a consultant to provide upgrade assessments, amortize the Contract Labor Memorandum Account and to request an adjustment to base rates to reflect the added employee labor expense. California Hot Springs Water shall have the burden of establishing that: (1) the costs recorded in the memorandum account have not been recovered through otherwise authorized rates; (2) recovery of the types of costs recorded in the account -- in addition to otherwise authorized rates -- is appropriate; (3) the utility acted prudently when it incurred these costs; and (4) the level of costs is reasonable. This advice letter shall become effective upon Commission approval.
7. California Hot Springs Water Company shall file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules and forms in its sewer tariff book to meet with the current Commission standards: Title Page; Preliminary Statement; Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Schedule LC, Late Payment Charge; Rules 1, Definitions; 2, Description of Service; 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extension; 16, Service Connections, Meters, and Customer's Facilities; 17, Standards for Measurement of Service; 18, Meter Tests and Adjustment of Bills for Meter Error; 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; 20, Limitations on Wastes Discharges into the Utility's Sewer System; and 21, Commercial, Institutional, and Industrial Wastes; and Forms 1, Application for Sewer Service; 2, Customer's Deposit Receipt; 3, Bill for Service; 4, Main Extension Contract – Individuals; and 5, Main Extension and/or Special Sewer Facilities Contract.



8. 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 1, 2012; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director



Appendix A  
California Hot Springs Water Company  
Summary of Earnings for Test Year 2011

| <u>Item</u>                                      | <u>Utility Estimated</u> |                  | <u>Branch Estimated<br/>Water and Sewer</u> | <u>Branch Recommended</u>  |                  |
|--|--------------------------|------------------|---|----------------------------|------------------|
|  | <u>Present</u>           | <u>Requested</u> |   | <u>Water</u>               | <u>Sewer</u>     |
| <b><u>Operating Revenue</u></b>                  | <b>2009</b>              | <b>2011</b>      |   | <b>( Return on Margin)</b> |                  |
| Water Metered Revenue                            | 9,726                    | 21,300           | 27,578                                      | -                          | -                |
| Sewer Revenue                                    | 9,726                    | 21,300           | 27,578                                      | -                          | -                |
|  | <b>\$ 1 9,451</b>        | <b>\$ 42,600</b> | <b>\$55,156</b>                             | <b>\$17,844</b>            | <b>\$18,510</b>  |
| <b><u>Operating Expenses</u></b>                 |                          |                  |   |                            | 36,354           |
| 610 Purchased Water                              | 12,608                   | -                | 13,493                                      | -                          | -                |
| 615 Purchased Power                              | 3,453                    | 4,274            | 2,675                                       | 713                        | 713              |
| 618 Other Volume Related                         | 1,500                    | 947              | 903   | 330                        | 330              |
| 640 Materials                                    | 1,469                    | 1,781            | 406   | 722                        | 722              |
| 650 Contract Work                                | -                        | 328              | 592   | 363                        | 278              |
| Water Testing                                    | -                        | -                | 2,192                                       | 798                        | 1,394            |
| 660 Transportation                               | 1,424                    | 1,366            | 1,394                                       | 697                        | 697              |
| 664 Other Plant Maintenance                      | 3,350                    | 3,066            | 2,853                                       | 539                        | 539              |
| 671 Management Salaries                          | n/a                      | 12,192           | 12,192                                      | 6,096                      | 6,096            |
| 676 Uncollectible                                | 1,905                    | 1,757            | 1,491                                       | 446                        | 463              |
| Office Services &                                |                          |                  |   |                            |                  |
| 678 Rentals                                      | 716                      | 1,014            | 1,384                                       | 507                        | 507              |
| 681 Office Supplies                              | 824                      | 651              | 216   | 182                        | 182              |
| 682 Professional Services                        | 1,300                    | 963              | 852   | 426                        | 426              |
| 684 Insurance                                    | 1,815                    | 2,324            | 2,211                                       | 1,271                      | 1,271            |
| 688 Regulatory Commission                        | 2,804                    | 2,664            | 609   | 407                        | 407              |
| 689 General                                      | 518                      | 837              | 621   | 300                        | 300              |
| <b>Subtotal</b>                                  | <b>\$ 33,686</b>         | <b>\$ 34,194</b> | <b>\$ 44,084</b>                            | <b>\$13,797</b>            | <b>\$ 14,326</b> |
| Depreciation                                     | -                        | -                | -   | -                          | -                |
| Taxes other than Income                          | 2,646                    | -                | -   | -                          | -                |
| State Income Taxes                               | 800                      | 800              | 800   | 800                        | 800              |
| Federal Income Taxes                             | -                        | 1,168            | 1,455                                       | 488                        | 519              |
| <b>Total Deductions</b>                          | <b>\$ 37,132</b>         | <b>\$ 36,162</b> | <b>46,339</b>                               | <b>\$ 15,085</b>           | <b>\$ 15,645</b> |
| <b>Net Revenue</b>                               | <b>\$ (17,681)</b>       | <b>\$ 6,438</b>  | <b>8,817</b>                                | <b>\$ 2,759</b>            | <b>\$ 2,865</b>  |
| <b><u>Rate Base</u></b>                          |                          |                  |   |                            |                  |
| Average Plant                                    | 62,443                   | 62,443           | 62,443                                      | 38,000                     | 24,443           |
| Ave. Accumulated                                 |                          |                  |   |                            |                  |
| Depreciation                                     | (62,443)                 | (62,443)         | (62,443)                                    | (38,000)                   | (24,443)         |
| <b>Net Plant</b>                                 | <b>-</b>                 | <b>-</b>         | <b>-</b>                                    | <b>-</b>                   | <b>-</b>         |
| <u>Plus</u> Working Cash                         | 2,710                    | 2,758            | 2,758                                       | 1,379                      | 1,379            |
| Materials & Supplies                             | 1,469                    | 1,698            | 1,698                                       | 849                        | 849              |
| <b>Rate Base:</b>                                | <b>\$ 4,179</b>          | <b>\$ 4,456</b>  | <b>\$4,456</b>                              | <b>\$ 2,228</b>            | <b>\$ 2,228</b>  |
| <b>Rate of Margin (Operating Ratio) (20.00%)</b> |                          |                  |   | <b>20.00%</b>              | <b>20.00%</b>    |
| <b>(END OF APPENDIX A)</b>                       |                          |                  |   |                            |                  |



**APPENDIX B**  
**Sheet 1**

**CALIFORNIA HOT SPRINGS WATER COMPANY**

Schedule No. 2

**FLAT RATE SERVICE**  
Test Year 2011

**APPLICABILITY**

Applicable to all water service.

**TERRITORY**

California Hot Springs, 25 miles southeast of Porterville, in Tulare County.

**RATES**

Proposed Water Flat Rate

|  |             |
|--|-------------|
| Proposed Flat Rate per customer per<br>month | \$55.07 (I) |
|--|-------------|

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)



**APPENDIX B**

Schedule No. 1

**GENERAL RESIDENTIAL SERVICE**

Test Year 2011

**APPLICABILITY**

Applicable to all sewer service.

**TERRITORY**

California Hot Springs, 25 miles southeast of Porterville, in Tulare County.

**RATES**

|               | Proposed<br>Rates |     |
|---------------|-------------------|-----|
| Sewer Service | \$57.13           | (l) |

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

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(END OF APPENDIX B)



**APPENDIX C**  
**CALIFORNIA HOT SPRINGS WATER COMPANY**

**COMPARISON OF RATES**

Test Year 2011

**WATER RATES**

|   | <u>Metered Rate</u>   | <u>Flat Rate</u> |
|---|-----------------------|------------------|
| Unmetered Customers                         | 27                    | 27               |
| <u>Present Rate per customer per month</u>  |                       |                  |
| Quantity Rate                               |                       |                  |
| All water, per 100 cu. ft \$1.29            | \$50.44 <sup>13</sup> | N/A              |
| Service Charge                              | \$17.00               |                  |
| <u>Proposed Rate per customer per month</u> |                       |                  |
|   |                       | \$55.07          |
| Percent Decrease                            |                       | - 12.36%         |

**SEWER RATES**

|               | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>% Increase</u> |
|---------------|----------------------|-----------------------|-------------------|
| Sewer Service | \$35.70              | \$57.13               | 60.03%            |

**(END OF APPENDIX C)**

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<sup>13</sup> Rate for a consumption 39.10 cu ft



**APPENDIX D**  
**CALIFORNIA HOT SPRINGS WATER COMPANY**  
**ADOPTED QUANTITIES**

|                            | <b>Test Year 2011</b> |              |
|----------------------------|-----------------------|--------------|
|                            | <b>Water</b>          | <b>Sewer</b> |
| 1. Purchased Water         | \$ 0                  | \$0          |
| 2. kWh                     |                       | 1,500        |
| 3. Uncollectibles          | \$ 487                | \$487        |
| <u>Service Connections</u> |                       |              |
| Total Flat Rate            | 27                    | 27           |
| <u>Metered Rate</u>        |                       |              |
| 5/8 x 3/4 -inch meter      | 27                    |              |

**INCOME TAX CALCULATIONS**

Test Year 2011

**WATER SERVICES**

| <u>No.</u> | <u>Item</u>            | <u>State Tax</u> | <u>Federal Tax</u> |
|------------|------------------------|------------------|--------------------|
| 1.         | Operating Revenues     | \$17,844         | \$17,844           |
| 2.         | Operating Expenses     | \$13,797         | \$13,797           |
| 3.         | State Taxable Income   | \$ 9,699         |                    |
| 6.         | State Tax (@8.84%)     | \$ 800           |                    |
| 5.         | Federal Taxable Income |                  | \$ 3,250           |
| 6.         | Federal Income Tax     |                  | \$ 488             |

**INCOME TAX CALCULATIONS**

Test Year 2011

**SEWER SERVICES**

| <u>No.</u> | <u>Item</u>            | <u>State Tax</u> | <u>Federal Tax</u> |
|------------|------------------------|------------------|--------------------|
| 1.         | Operating Revenues     | \$18,510         | \$18,510           |
| 2.         | Operating Expenses     | \$14,326         | \$ 14,326          |
| 3.         | State Taxable Income   | \$10,639         |                    |
| 6.         | State Tax (@8.84%)     | \$ 800           |                    |
| 5.         | Federal Taxable Income |                  | \$ 3,463           |
| 6.         | Federal Income Tax     |                  | \$ 519             |

**(END OF APPENDIX D)**



## **CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of Draft Resolution W-4901 on all parties in this filing to their attorneys as shown on the attached list.

Dated December 22, 2011, 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.



**SERVICE LIST**  
**DRAFT RESOLUTION W-4901**

California Hot Springs Water Co. – Water  
Ronald W. Gilbert, Owner  
P. O. Box 146  
California Hot Springs CA 93207

California Hot Springs Water Co. – Sewer  
Ronald W. Gilbert, Owner  
P. O. Box 146  
California Hot Springs CA 93207

Del Oro Water Company, Inc.  
Attention: Robert Fortino, Pres.  
Drawer 5172  
CHICO CA 95927

Van R. Parkinson  
Hot Springs Cabin #MH  
338 N. 6yh Street  
Grover Beach CA 93433

Alex Chernabaeff  
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