

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



July 18, 2006

Draft Resolution No. W-4612
Agenda ID 5843

TO: Parties to Rural Water Company, Inc.'s Cypress Ridge Sewer System
Advice Letters Nos. 4 and 5

This is the draft Resolution of the Water Division. This draft Resolution will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, 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 or modify it, or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

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

Fred L. Curry
Water Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-4426

Any comments on the draft Resolution must be received by the Water Division by August 7, 2006. Those submitting comments must serve a copy of their comments on 1) the service list attached to the draft Resolution, 2) all Commissioners, and 3) the Director of the Water Division, on the same date that the comments are submitted to the Water Division.

Draft Resolution No. W-4612

Rural Water Company, Inc. Cypress Ridge Sewer System -Advice Letters Nos. 4 and 5

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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 an appendix setting forth the proposed findings and ordering paragraphs. Replies to Comments are due on August 11, 2006.

Comments shall focus on factual, legal or technical errors in the draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Late submitted comments will not be considered.

/s/ KEVIN P. COUGHLAN

Kevin P. Coughlan

Director

Water Division

Enclosures: Draft Resolution W-4612

Certificate of Service

Service List

WATER/JPT/EYC/LTR/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4612

August 24, 2006

R E S O L U T I O N

(RES. W-4612), RURAL WATER COMPANY, INC. (RURAL) - CYPRESS RIDGE SEWER SYSTEM (CYPRESS RIDGE). ORDER AUTHORIZING A THIRTY-SIX MONTH RATE SURCHARGE FOR RECOVERY OF THE UNANTICIPATED EXPENSE MEMORANDUM ACCOUNT, FOR A TOTAL AMOUNT OF \$69,675, AND A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$34,450 OR 18.1% IN 2006.

SUMMARY

By Advice Letter (AL) No. 4, filed on August 3, 2005, Cypress Ridge seeks approval for rate recovery of \$115,841¹ from its Unanticipated Expense Memorandum Account (UEMA) from January 1 through June 30, 2005. In addition Cypress Ridge, through AL No. 5 filed on August 24, 2005, seeks an increase in its annual rates for sewer service of \$89,030, to recover increased operating expenses and provide a rate of margin (ROM) of 24.63%.²

This resolution grants recovery of \$69,675 of Cypress Ridge's UEMA in the form of a 36--month surcharge of \$5.37 per month for a typical residential customer.

This resolution also grants an increase in gross annual revenues of \$34,450, or 18.1%, for Test Year 2006. Cypress Ridge is not eligible for a rate of return since it has no rate base, and its request for a rate of margin at this time is denied without prejudice. A general

¹ AL No. 4 was filed requesting recovery of \$89,076. Staff calculated \$115,841 in expense recovery and recommends the higher amount for recovery.

² W-4524 is cited as the basis for requesting a rate of margin of 24.63%. However, W-4524 was strictly applicable to Class C and D water utilities and not applicable to sewer utilities.

rate case filing for Rural is ordered within 90 days of the issuance of this resolution. Cypress Ridge may file a concurrent request for a rate of margin.

BACKGROUND

Cypress Ridge has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to recover \$89,076 through a 36-month surcharge and to increase its annual sewer rates by \$89,030, or 46.7%, in Test Year 2006. The purpose of the surcharge was to recover unanticipated expenses in Cypress Ridge's UEMA from January 1 through June 30, 2005. The purpose of the annual rate increase was to recover increased operating expenses and to provide a rate of margin. Cypress Ridge's request shows gross revenues of \$190,735 at present rates increasing to \$279,765 at proposed rates. Cypress Ridge is requesting a rate of margin of 24.63%.

The present rates were established on September 12, 2005, pursuant to Resolution No. W-4554, which authorized recovery of \$75,867 from Cypress Ridge's UEMA for the period of April 22 to December 31, 2004.

Cypress Ridge was granted a Certificate of Public Convenience and Necessity (CPCN), effective January 1, 2003, and rates were initially set by Commission Decision (D.) 02-06-005. In D. 02-06-005, the Commission recognized the uncertainty of operational expenses and allowed for re-evaluation of contract services (Finding of Fact No. 4), an allowance of a rate of margin (Findings of Fact No. 7), the establishment of an insurance expense memorandum account (Findings of Fact No. 12), and the adjustment of rates for additional commercial customers (Findings of Fact No. 20). Rates were set to allow Cypress Ridge a 15% rate of margin, thus recognizing the uncertainty of operational expenses and the lack of rate base.

Cypress Ridge is a Chapter S (Sole Proprietorship) California corporation with Mr. Charles Baker as CEO (and sole stockholder).

Cypress Ridge serves approximately 352 residential and 8 commercial flat rate sewer customers in its service area in San Luis Obispo County. Cypress Ridge's filing did not project any customer growth in 2006. The majority of customers are full-time residents and are either retired or working (executives and self-employed) individuals. Service territory is less than one square mile and the terrain is generally flat land.

Cypress Ridge's sewage treatment plant is a stand-alone batch reactor sewer system which requires a minimum Grade 3 Wastewater Treatment Plant Operator as its chief operator. Cypress Ridge does not have any employees or equipment, but rather

contracts for all services. Mr. Baker oversees all contracts and day-to-day management.³ Cypress Ridge is provided water by Rural, which Mr. Baker also owns. Because of the dual ownership, some expense items are shared.

NOTICE, PUBLIC MEETING, PROTESTS AND STAFF REPORT

A combined notice, for the recovery of the UEMA surcharge and the general rate increase, was mailed to each customer on November 2, 2005. The Water Division (Division) received two letters regarding the proposed surcharge request and no letters regarding the general rate increase request. One letter was from an individual customer and dealt with the questionable management of Cypress Ridge and the passing on of costs to customers. The other letter was from the Cypress Ridge Owners' Association (CROA) and dealt with many issues surrounding both rate requests. Neither letter provided supporting information to their statements. The Division responded to both letters.

From December 12, 2004, to December 12, 2005, the Consumer Affairs Branch of the Communications and Public Affairs Division received no complaints regarding Cypress Ridge.

A field investigation was performed and an informal meeting, in the service area, was conducted on December 13, 2005. The meeting commenced at 2:10 p.m. and adjourned at 4:24 p.m., with approximately 28 individuals attending. The Division representative explained the Commission rate setting procedures as well as the purpose of the meeting. Cypress Ridge's representative provided justification for the requests. In addition, CROA gave a slide presentation regarding their concerns over the operations and rate setting procedures. The balance of the meeting consisted of comments, questions, and discussion among the participants.

The Division issued its staff report on May 4, 2006. The report was mailed to all interested parties, including CROA. On June 2, CROA issued comments on the staff report. CROA questioned the amount of recovery sought, nature of the cost of repairs booked, and the consultant fees allowed. In addition, CROA questioned the number of customers for the Test Year and made a suggestion to the wording in minutes for the public meeting. On June 5, the Division replied to the comments and informed CROA that the draft resolution would be distributed for comments.

³ Mr. Baker does not possess any operator's licenses for either wastewater or water facilities.

DISCUSSION

The Division has reviewed the expenses recorded in the UEMA for the period from January 1 to June 30, 2005. Division notes that Cypress Ridge submitted summary sheets for its expenses but failed to provide supporting documentation for all expenses listed in the summary sheets. The Division calculated the total of the summary sheets for the above time period to be \$115,841, not the \$89,076, as indicated in the advice letter filing.

The Division believes that Cypress Ridge could not have anticipated the expenses and was not allowed sufficient revenue for the expenses to operate the sewage treatment plant. The Division has allowed recovery of the difference between the expenses for contract work for plant maintenance, for that found reasonable, and that allowed in D.02-06-005, in the amount of \$46,675. In addition, Division has allowed a consultant fee of \$23,080 for the same time period. Division determined that \$69,756 was found reasonable and should be allowed for recovery based upon a review of the supporting documentation. Cypress Ridge shall track the revenue from the surcharge in a balancing account as required by Public Utilities Code §792.5.⁴

The Division made an independent analysis of Cypress Ridge's summary of earnings for the general rate increase request and issued its report on May 4, 2006. Appendix A shows Cypress Ridge's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A shows differences in Cypress Ridge's and the Division's estimates in operating revenues, expenses, and rate base. Cypress Ridge has indicated that it does not agree with the Division's recommendation of a zero rate of margin.

⁴ Public Utilities Code § 792.5 states:

Whenever the Commission authorizes any change in rates reflecting and passing through to customers specific changes in costs, except rates set for common carriers, the Commission shall require as a condition of such order that the public utility establish and maintain a reserve account reflecting the balance, whether positive or negative, between the related costs and revenues, and the Commission shall take into account by appropriate adjustment or other action any positive or negative balance remaining in any such reserve account at the time of any subsequent rate adjustment.

There are minor differences in all expense categories. The Division's estimates were determined using actual billing and past recorded expenses. Cypress Ridge's estimates were oftentimes not supported. The differences are explained below.

For the Power account, the Division examined historical power consumption to determine the Test Year consumption. Current tariff rates for power were applied to the estimated consumption. Cypress Ridge did not provide supporting documentation for its estimate.

For the Contract Work account, the Division estimate included a contract with ECO Resources, Inc. and a groundwater monitoring expense. Cypress Ridge did not provide supporting documentation for its estimate.

For the Office Supplies and Expenses account, the Division allowed for office supplies and expenses that Cypress Ridge omitted to include in its request.

For the Professional Services account, the Division allowed certified public accounting services and disallowed the fees for memorandum accounting services.

For the Insurance account, the Division estimate was based upon current bills. Cypress Ridge did not provide supporting documentation for its estimate.

For the Regulatory Commission Expense account, the Division estimate was based upon current bills from the State Water Resources Control Board. Cypress Ridge did not provide supporting documentation for its estimate.

Division notes that several expense categories are split between Cypress Ridge and Rural. While the sharing of expenses is not an uncommon practice when both water and sewer services are provided, what is uncommon is for non-concurrent rate cases to be filed. Because a rate case has not been filed for Rural, no adjustments can be made to rates for Rural to reflect the current shared expenses.

Division also notes that the last general rate case for Rural was conducted in 1992, nearly 14 years ago, when Rural had 237 active metered service connections. An examination of the 2005 annual report shows the number of active metered connections growing to 901, an increase of 280%. There has been no downward adjustment in rates due to customer growth. Rural has increased its recorded management salaries by 404% over that last authorized. Because a significant rate reduction may be warranted for Rural, Division is strongly recommending that Rural be ordered to file a general rate case within 90 days of this resolution. We will so order.

Cypress Ridge was financed and constructed by a developer and was considered 100% contributed in D.02-06-005. As such, the original plant was excluded from rate base for ratemaking purposes. Division has examined the plant account since 2003 and found that Cypress Ridge has made no plant additions. Cypress Ridge's records show a total of \$4,760,000 for plant accounts which should be considered contributed.⁵ Appendix E lists the individual plant account contributed items.

Rate base is calculated by taking the net plant, subtracting advances & contributions, and adding working cash, materials & supplies, and construction work in progress. Cypress Ridge has no rate base because all plant is contributed and there is no working cash⁶, no materials and supplies⁷, and no construction work in progress⁸.

In cases where little or no rate base exists for water utilities, the Commission has authorized a rate of margin to be applied to determine the revenue requirement. However, this has not been authorized uniformly for sewer utilities.⁹ Rather, the rate of margin for sewer utilities has been determined on a case-by-case basis and has been dependent upon the risk profile of the sewer utility.¹⁰

⁵ D.02-06-005 failed to note the amount for sewer plant in service. The \$4,760,000 amount is based upon Rural-CRSS' annual reports.

⁶ Sewer service is billed at a flat rate and paid in advance; therefore there is no working cash.

⁷ Cypress Ridge has no maintenance program for its sewer system and therefore does not require any materials and supplies. Any maintenance would be performed by a contractor using acquired materials.

⁸ Cypress Ridge has not added any plant nor does it project to add any plant in the near future.

⁹ W-4524 allows all Class C and D water utilities to seek a rate of margin of 24.63%. There was no provision for the rate of margin to be applied to sewer utilities. The Commission also recognized this in W-4510 when it stated: "There is no Commission order requiring the use of the operating ratio method for sewer utilities."

¹⁰ Examples include CA Hot Springs (W-4008, 11/26/96) which was allowed a ROM for both water and sewer services of 20%, Big Basin (W-4044, 06/11/97) which was allowed a ROM for sewer services of 10%, Rural Water Company (D.02-06-005, 06/06/02) which allowed a ROM for sewer services of 15% and Mayacama Golf Club, LLC (D.03-08-056, 08/21/03) which allowed a ROM for sewer services of 19%.

The Commission currently regulates 12 sewer utilities¹¹. At the time of a general rate increase investigation, the Division examines the risk profile of a utility and recommends an appropriate rate of return or rate of margin. Oftentimes a rate of return is recommended rather than a rate of margin because of the risk profile of the utility does not warrant a rate of margin.¹²

Cypress Ridge claims that it is at risk and should be allowed a minimum of a 15% rate of margin, which is the same rate of margin allowed in D.02-06-005. On June 23, 2006, a meeting occurred between Division management and Cypress Ridge representatives (Robert Kelly and Martin Abramson) to discuss the request for a 15% rate of margin. The representatives presented W-4008, W-4044, and D.02-06-005, in support for the 15% rate of margin request. In arguing for their client's request for a rate of margin, the representatives made a weak showing. They failed to provide a risk profile of Cypress Ridge which would warrant such application and they failed to note that the Commission did not provide a rate of margin in W-4448 and W-4435.

We note that Cypress Ridge has already been provided with several mechanisms to mitigate risk. In D.02-06-005, the Commission recognized that insurance premiums were likely to escalate beyond what was allowed in rates and ordered Cypress Ridge to establish a limited-time memorandum account for insurance expenses.¹³ In addition, D.92-03-093 and W-4467 allowed all water and sewer utilities to establish and seek recovery of unanticipated repair expenses. Cypress Ridge has sought, and was granted, recovery for its memorandum accounts. Cypress Ridge has already been authorized recovery of \$75,867 for expenses due to problems balancing flows in its treatment plant in 2004. It is also presently seeking recovery of costs for the same problems in first half of 2005. Cypress Ridge continues to track these expenses and has indicated that filings will be forthcoming for additional expenses.

¹¹ Utility size varies from 18 to over 1,111 customers.

¹² Examples include Interstate-5 Utility Company, Inc. (W-4435, 10/30/03), which was allowed a rate of return for sewer services of 12.5%, and Rolling Green Utilities, Inc. (W-4448, 01/08/04), which was allowed a rate of return for sewer services of 12.9%. Had a rate of margin been authorized, the net revenues would have been substantially more than that authorized under the rate of return method. Obviously, the risk profile of these utilities did not warrant the application of the rate of margin.

¹³ Ordering Paragraph No. 8 of D.02-06-005 allowed for the insurance expense memorandum account to remain in effect until December 31, 2005.

Cypress Ridge does not qualify to earn a return since it has no rate base on which to earn a return. In addition, the Division proposes denying, without prejudice, the request for rate of margin at this time because Cypress Ridge has not provided any risk profile which would justify the application of a rate of margin. By denying the request, the Division is not precluding Cypress Ridge from requesting a rate of margin in future rate cases. The Division notes that any rate of margin determination for Cypress Ridge should be done concurrently with an evaluation of Rural and a risk profile should be clearly supported.

The existence of the risk-mitigating memorandum accounts (UEMA and insurance), the lack of any need for investment, and the lack of a general rate case for Rural, gives support for denying, without prejudice, Cypress Ridge's request for a rate of margin. Cypress Ridge may renew its request at the time the concurrent general rate case is filed with Rural.

Cypress Ridge currently provides service under two rate schedules: Schedule No. 1, Residential Flat Rate Sewer Service, and Schedule No. 2, Commercial Flat Rate. The new rate schedules can be found in Appendix B.

At the Division's recommended rates shown in Appendix B, the monthly bill for a residential customer will increase from \$44.03 to \$51.98, or 18.1%. The monthly bills for the commercial customers are all increasing by 18.1%. Bill comparisons are shown in Appendix D.

Cypress Ridge's Advice Letters No. 4 and 5 should be rejected upon approval of this resolution.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. A review of Cypress Ridge's tariff sheets has determined that the entire tariff book needs to be updated to comply with the current sewer tariff book tariffs and rules.

COMMENTS

Public Utilities 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 its mailing.

Comments were received on _____. Replies were received on _____.

FINDINGS

1. The summary of earning (Appendix A) developed by the Division is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix C) used to develop the Division's recommendations are reasonable and should be adopted.
4. Advice Letters No. 4 and 5 should be rejected upon approval of this resolution.
5. Cypress Ridge needs to update all tariff sheets to reflect the current sewer tariff sheets.
6. Several expenses are allocated between Rural and Cypress Ridge. The rates recommended are for Cypress Ridge. Rates are not being adjusted for Rural at this time.
7. It has been 14 years since Rural's last general rate increase and Rural has experienced a 280% increase in active metered connections without any adjustment in rates.
8. Rural should be ordered to file a general rate case request within 90 days of the issuance of this resolution. Cypress Ridge may file a concurrent request for a rate of margin.
9. Cypress Ridge should track revenue collected under the surcharge for its UEMA and refund any excess revenues collected to its customers.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Cypress Ridge 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 rate Schedule No. 1, Residential Flat Rate Sewer Service, and Schedule No. 2, Commercial Flat Rate Sewer Service. The revised rate schedules shall become effective five days from the date of filing.

2. Cypress Ridge is authorized to collect \$69,756, from its unanticipated expenses memorandum account, in the form of a 36-month surcharge.
3. Cypress Ridge is authorized to increase its annual revenues by \$34,450 or 18.1%, based on reasonable rates for 2006.
4. Cypress Ridge shall track the revenue from the surcharge in a balancing account as required by Public Utilities Code §792.5.
5. Cypress Ridge Advice Letters No. 4 and 5 are hereby rejected.
6. Rural shall file a general rate case request within 90 days of the issuance of this resolution. Cypress Ridge may file a concurrent request for a rate of margin.
7. Cypress Ridge shall update all tariff sheets to reflect the current standard sewer tariff sheets.
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 August 24, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

Appendix A
(Page 1 of 1)
Rural Water Company, Inc.
Cypress Ridge Sewer Service
SOE - Test Year 2006

Description	RWC-CRSS Present Rates	RWC-CRSS Requested Rates	Branch Present Rates	Branch Requested Rates	Branch Recommended Rates
OPERATING REVENUES					
Flat Rate Sewer Revenues	190,735	279,765	190,735	279,665	225,185
TOTAL REVENUES	190,735	279,765	190,735	279,665	225,185
OPERATING EXPENSES					
Purchased Water	0	0	0	0	0
Power	19,000	19,000	21,023	21,023	21,023
Other Volume Related Exp.	0	0	0	0	0
Employee Labor	0	0	0	0	0
Materials	0	0	0	0	0
Contract Work – General Exp.	174,700	174,700	174,013	174,013	174,013
Contract Work – Water Testing	0	0	0	0	0
Transportation Expenses	0	0	0	0	0
Other Plant Maintenance Exp.	0	0	0	0	0
Office Salaries	0	0	0	0	0
Management Salaries	0	0	0	0	0
Employee Pensions and Benefits	0	0	0	0	0
Uncollectible Accounts Exp.	0	0	0	0	0
Office Services and Rentals	0	0	1,800	1,800	1,800
Office Supplies and Exp.	3,600	3,600	3,600	3,600	3,600
Professional Services	5,495	5,495	2,400	2,400	2,400
Insurance	15,000	15,000	15,314	15,314	15,314
Regulatory Commission Exp.	6,700	6,700	6,235	6,235	6,235
General Expenses	0	0	0	0	0
SUBTOTAL	224,495	224,495	224,385	224,385	224,385
Depreciation Expense	0	0	0	0	0
Taxes Other Than Income Taxes	0	0	0	0	0
Income Taxes & Franchise Fee	0	0	800	12,485	800
TOTAL DEDUCTIONS	224,495	224,495	225,185	236,870	225,185
NET REVENUE	-33,760	55,270	-34,450	42,795	0
RATE BASE					
Average Plant In Service			4,760,000	4,760,000	4,760,000
Average Depreciation Reserve			0	0	0
NET PLANT			4,760,000	4,760,000	4,760,000
Less: Advances	0	0	0	0	0
Contributions (Undepr.)			4,760,000	4,760,000	4,760,000
Plus: Working Cash	0	0	0	0	0
Materials & Supplies	0	0	0	0	0
Const. Work In Progress	0	0	0	0	0
RATE BASE	n/a	n/a	0	0	0
RATE OF MARGIN	-15.04%	24.62%	-15.30%	18.07%	0%

**Appendix B
(Page 1 of 2)**

Rural Water Company, Inc.
Cypress Ridge Sewer Service

**Schedule No. 1
RESIDENTIAL FLAT RATE SEWER SERVICE**

APPLICABILITY

Applicable to all residential sewer service.

TERRITORY

Cypress Ridge, within Tract # 1933, and including Golf Course Complex,
San Luis Obispo County.

RATES

Per Connection
Per Month

For all residential sewer service \$51.98 (I)

SPECIAL CONDITIONS

1. All sewer service is subject to a monthly surcharge of \$6.74 for a period of 36 months beginning September 12, 2005. (T)
(T)
2. All sewer service is subject to a monthly surcharge of \$5.37 for a period of 36 months beginning with the effective date of the advice letter. (N)
(N)
3. All bills are subject to the Reimbursement fee set forth in Schedule No. UF. (L)

**Appendix B
(Page 2 of 2)**

Rural Water Company, Inc.
Cypress Ridge Sewer Service

**Schedule 2
COMMERCIAL FLAT RATE SEWER SERVICE**

APPLICABILITY

Applicable to all commercial sewer service.

TERRITORY

Cypress Ridge, within Tract #1933, and including Golf Course Complex, San Luis Obispo County.

RATES

Service Charge:

		Per Connection Per Month		AL No. 2-A Surcharge Per Month	(T)
For	Golf Pro Shop	\$34.83	(I)	\$ 4.34	
For	Golf Maintenance Facility	\$84.47		\$10.52	
For	Commercial/Office Facility	\$69.64		\$ 8.67	
For	Pavilion	\$69.64	(I)	\$ 8.67	
		Surcharge Per Month (Res. W-4612)		(N)	
For	Golf Pro Shop	\$ 3.60			
For	Golf Maintenance Facility	\$ 8.72			
For	Commercial/Office Facility	\$ 7.19			
For	Pavilion	\$ 7.19		(N)	

SPECIAL CONDITIONS

1. AL No. 2-A Surcharge is effective for a period of 36 months beginning September 12, 2005. (T)
2. Surcharge as authorized by Res. W-4612 is for a period of 36 months beginning with the effective date of the advice letter. (N)
(N)
3. All bills are subject to the Reimbursement fee set forth in Schedule No. UF. (L)

Resolution W-4612

DRAFT

August 24, 2006

Rural - Cypress Ridge/ AL 4 and 5/JPT/EYC/LTR:jlj

Appendix C
(Page 1 of 2)

Rural Water Company, Inc.
Cypress Ridge Sewer Service
Recommended Quantities - Test Year 2006

1. Federal tax rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income

2. State tax rate: 8.84%

3. Service connections:

Residential Flat Rate Sewer Service: 352
Commercial Flat Rate Sewer Service:
Golf Pro Shop: 3
Golf Maintenance Facility: 1
Commercial/Office Facility: 3
Pavillion: 1

4. Contract work:

ECO Resources, Inc. - \$171,500 per year
Groundwater monitoring - \$2,513 per year

5. Purchased Power:

Pacific Gas and Electric Company, Schedule No. A-1, Small General Service,
Effective January 1, 2006

Quantity Charge:

kWh used - total: 138,789
kWh used - summer: 66,849
\$/kWh - summer: \$0.17375
kWh used - winter: 71,940
\$/kWh - winter: \$0.12673

Service Charge:

Customer Charge:

\$/meter/day - single-phase: \$0.26612
\$/meter/day - polyphase: \$0.39425
No. of meters - single phase: 3 No. of meters - polyphase: 0

Appendix C
(Page 2 of 2)

Rural Water Company, Inc.
Cypress Ridge Sewer Service
Recommended Quantities - Test Year 2006

6. Recommended Rates – Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$225,185	\$225,185
2.	Expenses	\$224,385	\$224,385
3.	Taxes Other Than Income Taxes	\$ 0	\$ 0
4.	Depreciation	\$ 0	\$ 0
5.	Interest	\$ 0	\$ 0
6.	State Taxable Income	\$ 800	
7.	State Income Tax (@8.84% or \$800 minimum)	\$ 800	
8.	Federal Taxable Income		\$ 0
9.	Federal Income Tax (@15% & 25%)		\$ 0
10.	TOTAL INCOME TAX		\$ 800

Appendix D**(Page 1 of 1)**

Rural Water Company, Inc.
Cypress Ridge Sewer Service
Comparison of Rates - Test Year 2006

A comparison of bills for each customer classification is shown below:

	Customer Type	Present Rates	Recommended Rates	Percent Increase
<u>Schedule No. 1:</u>	Residential	\$44.03	\$51.98	18.1%
<u>Schedule No. 2:</u>	Golf Pro Shop	\$29.50	\$34.83	18.1%
	Golf Maintenance Facility	\$71.55	\$84.47	18.1%
	Commercial/Office Facility	\$58.99	\$69.64	18.1%
	Pavilion	\$58.99	\$69.64	18.1%

Appendix E**(Page 1 of 1)**

Rural Water Company, Inc.
Cypress Ridge Sewer Service
Contributed Sewer Plant-In-Service

<u>Account</u>	<u>Description</u>	<u>Beg. Of Year</u> <u>2006</u>
301	Intangible Plant	\$ 0
303	Land	\$ 0
304	Structures	\$ 0
307	Wells	\$ 0
317	Other Water Source Plant	\$ 0
311	Pumping Equipment	\$ 10,000
320	Treatment Plant	\$ 3,200,000
330	Reservoirs, tanks, & sandpipes	\$ 0
331	Mains	\$ 1,500,000
333	Services & Meter Installations	\$ 0
334	Meters	\$ 0
339	Other Equipment	\$ 40,000
340	Office Furniture & Equipment	\$ 10,000
341	Transportation Equipment	\$ 0
	Total	\$ 4,760,000

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of draft Resolution No. W-4612 on all parties in these filings or their attorneys as shown on the attached list.

Dated July 18, 2006, at San Francisco, California.

/s/ JOSIE L JONES

Josie L. Jones

NOTICE

Parties should notify the Water Division, Public Utilities Commission,
505 Van Ness Avenue, Room 3106, San Francisco, CA 94102,
of any change of address to insure that they continue to receive documents.
You must indicate the Resolution number of the service list on which your name
appears.

SERVICE LIST
DRAFT RESOLUTION NO. W-4612

Mr. Charles Baker
Rural Water Company, Inc.
P.O. Box 745
Grover Beach, CA 93483
Marty Abramson
420 Ashton Ave.
Millbrae, CA 94030

Robert L. Kelly
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