

WATER/RSK/PTL/AAS/jlj

DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch

RESOLUTION NO. W-4795
November 20, 2009

RESOLUTION

**(RES. W-4795), CYPRESS RIDGE SEWER COMPANY (Cypress).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$98,628 OR 29.8% FOR TEST
YEAR 2008.**

SUMMARY

By Draft Advice Letter filed on April 1, 2008, Cypress requested an increase of \$239,859 in annual gross revenue for Test Year (TY) 2008 to recover operating expenses and earn an adequate return on its plant improvement.

For Test Year 2008, this resolution grants an increase in gross revenues of \$98,628 or 29.8% which is estimated to provide a Rate of Margin (ROM) of 20%.

BACKGROUND

Cypress, a Class D sewer utility, has requested authority under Section VI of General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its rates by \$239,859. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. The last general rate increase for Cypress was on October 5, 2006, by Res. W-4614 which granted an increase of \$49,144 or 25.8%.

Cypress' present rates became effective on April 30, 2008, by approval of Advice Letter (AL) 8-SS, which authorized an interim rate increase in gross annual revenues of \$88,000 or 36.7% subject to refund or increase pending the outcome of the general rate increase (GRC).

Cypress currently serves 367 residential and 8 commercial sewer customers in its service area near the town of Arroyo Grande, in San Luis Obispo County. The majority of customers are full-time residents, being a mixture of retired or working individuals.

NOTICE AND PROTESTS

A notice regarding the general rate increase was mailed to each customer on October 3, 2008. A public meeting was held in Arroyo Grande on November 5, 2008. Numerous complaints were received at and after the public meeting.

Copies of the Division of Water and Audits (Division) staff report were sent to attendees who provided email or street addresses. A reply was received from Cypress as well as the attorney hired by the Cypress Ridge Owners Association (CROA).

CROA filed a Request for Special Notice on October 23, 2008 to be served with all notices, etc. This was satisfied by serving their attorney with a copy of this resolution.

DISCUSSION

The Division's Utility Audit, Finance and Compliance Branch (UAFCB) made an independent audit of Cypress' operations. Division's staff report incorporated the audit findings.

Appendix A shows Cypress' and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2008.

The Division reviewed operating revenues and expenses including purchased power, employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

Two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return (ROR) and (2) Rate of Margin. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water and sewer utilities using the rate of return and rate of margin methods. Both methods are to be used. Per Decision (D.) 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. Since Cypress has no Rate Base, therefore the Division recommends the 20% ROM method for TY 2008, which produces the revenues of \$429,530. The increase in gross revenues will be \$98,628 or 29.8%.

At the Division's recommended rates shown in Appendix B, the bill for a residential customer would increase from \$77.30 to \$99.09. A comparison of customer bills for

adopted and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

SUMMARY OF EARNINGS

Staff performed an investigation of the utility's books and used the Annual Report of Earnings for TY 2008. Appendix A contains estimates for operating revenues, operating expenses, and rate base at present, proposed, and recommended rates for the Test Year. The basis for each recommended estimate is discussed below. Appendix B contains the tariff schedules at the recommended rates.

Power

The requested amount is \$22,938. Power costs had been rising. However, the reported power cost for Cypress in 2008 decreased which is understood to be caused by more efficient operation of the plant. The Division recommends the 2008 recorded cost of \$17,067 for purchased power.

Other Volume Related Expense

There is a daily requirement by the Regional Water Quality Control Board (RWQCB) for laboratory testing amounting to a cost of \$39,150. This cost was part of the previous contract with ECO Systems.

CROA claims that the ratepayers should only have to pay for standard sampling and testing protocols which could be done by employees rather than contracted out. As discussed above, there is a daily requirement imposed by the RWQCB, which requires the use of outside service, amounting to a cost of \$39,150. Therefore, Division recommends \$39,150 for this category as reasonable.

Employee Labor

Division reviewed historical expenses from 2006 thru 2007, during which time zero expenses were booked since day-to-day operation and most maintenance were provided by contract work. Termination of the contract with ECO Systems in mid-2008 resulted in Employee Labor costs of \$80,528 for two employees for a half year. This results in an annualized cost of \$170,000 plus employer-contributed taxes of \$15,000, plus \$6,700 in transportation to the laboratory for testing, plus \$9,940 for Workmen's Compensation insurance equaling \$201,640. The ECO contract was \$190,000 yearly in 2006. With cost of living increases this would be \$205,440 for 2008. The ECO contract included the costs for laboratory testing and sludge removal. Subtracting these costs would value the manpower at $\$205,440 - \$66,000 - \$39,150 = \$100,290$. This would

indicate that only approximately half the manpower employed is needed. Division recommends \$120,000 be allocated to this category.

Cypress claims that using the previous contract to calculate labor at \$120,000 is not valid because the contractor did not provide enough labor. CROA has provided a review by an independent contractor Fluid Resource Management indicating operating costs estimated in the range of \$150,000 to \$192,000 after repairs to the plant that would eliminate sludge removal costs of \$66,000. Division believes that \$120,000 is a reasonable amount for employee labor and that a memorandum account be initiated to post employee labor expenses exceeding \$120,000 annually. Cypress may apply for approval and collection of the accumulated excesses after it has restored normalcy.

Contract Work

Work is contracted out for sludge removal because the utility does not have any direct employees to remove sludge. Division recommends \$66,000 for sludge removal.

Transportation Expenses

Division reviewed historical expenses from 2006 thru 2008. UAFCB notes a lack of documentation and justification for these expenses. Division finds that samples are tested daily per RWQCB requirements. The samples are brought to San Luis Obispo which is a 35 mile round trip. Adding miscellaneous local travel, Division recommends \$6,700 as a reasonable expense for this category.

Other Plant Maintenance

The requested cost for this item by Cypress was \$57,891. Division forecasts much of this work will be performed by the employees. Division recommends \$17,981 for this category based upon the three-year average of the costs as reasonable for this category.

Cypress claims that continual replacement of major parts is needed but did not provide justification as to why a 10-year old plant would need it. CROA suggests only \$3,000 is needed and this work is to be done by employees. As discussed above, Division forecasts much of this work will be performed by the employees and recommends \$17,981.

UEMA

An Unexpected Expenses Memorandum Account (UEMA) account for Cypress was established per Res. W-4467 dated April 22, 2004, and its existence was acknowledged by the Division in a letter dated October 14, 2005. The Commission subsequently approved UEMA expense recovery for Cypress in Res. W-4671, dated January 10, 2008.

The last \$233,879 UEMA request was rejected by staff on the basis that it would be considered in the general rate case (GRC). Part of the above UEMA will be recovered as a surcharge. The remainder of \$182,921 (\$1,412 in 2007 and \$181,509 in 2008) is considered capitalized and will be allocated to plant.

Division recommends the recoverable UEMA costs (amounting to \$14,810 in 2007 and \$36,147 in 2008 totaling \$50,957) to be collected as a surcharge of \$3.77 per month applied for 36 months to all 375 connections.

Office Salaries

The office salaries expense has been booked at \$500 as of 2008. This account includes the salaries of all employees whose time is utilized in billing, collecting, record keeping, or general office work. This has been outsourced to Multi-Task Business Services, Inc. and allocated by the company under Office Supplies and Expenses Account No. 681. Therefore the funds allocated to this account are \$0.

In addition, pursuant to the Uniform System of Accounts (USOA), the Office Salaries account shall not include the salaries of the manager, owner, or principal stockholders.

Management Salaries

UAFCB recommends allowing 10% of the 2007 reported amount of \$30,000 or \$3,000. Customer satisfaction is an important indicator of management capability. 218 ratepayers showed up at the public meeting and over 30 written complaints about the rate case was received by Division. CROA suggests \$0 since the owner will receive \$9,000 from Rural Water Company (Rural). Cypress and Rural are separate entities; therefore, Division agrees with UAFCB and recommends \$3,000 as a reasonable charge for management.

Employee Pension and Benefits

Cypress claimed \$14,183 in 2007 and \$1,792 for this category in 2008. UAFCB considers this personal in nature since it pertains only to the shareholders and should not be allocated to the ratepayers on the basis that they do not benefit from them. Division agrees with UAFCB and recommends \$0 for this category.

Office Services and Rentals

Division reviewed historical expenses from 2006 thru 2008. The recommended Test Year expense for office services and rentals is \$3,289 which is the three-year average.

CROA suggests that the cost be held to the 2008 level of \$1,606. Division believes that the three-year average is reasonable and recommends \$3,289.

Office Supplies and Expenses

Division reviewed historical expenses from 2006 thru 2008. The recommended test year expense for office supplies and expenses is \$2,224 which is the three-year average.

CROA suggests that the cost be held to the 2008 level of \$1,052. Division believes that the three-year average is reasonable and recommends \$2,224.

Professional Services

The utility requested amount is \$11,799.

Part of the consultant costs for 2007 are associated with the Commission (\$10,000) and have been reclassified as regulatory expense. The Division's readjusted expense for 2007 Professional Services expense is \$25,389 - \$10,000 for a total of \$15,389. Similarly, Division has readjusted the 2008 cost to \$18,933 by reclassifying \$15,000 as Regulatory Expense.

CROA wants the consultant fees reduced drastically but did not provide a value or justification. Division believes the three-year average (from 2006 to 2008) is reasonable and recommends \$15,027 for this category.

Insurance

The recorded insurance payments for 2008 is \$13,903. An additional amount of \$9,940 Workman's Compensation costs fall into this category. Division recommends \$23,843 for the total.

Regulatory Commission Expense

Based on expenses incurred by Cypress in the past, Division recommends \$5,618 for this category.

General Expenses

Division recommends the three year average which is \$337.

Loans and Interest

Cypress has requested \$20,058 in interest for loans to cover expenses in excess of revenue.

During the course of the audit, staff requested documentation, workpapers, calculations, etc., for the loans made by the two shareholders (husband/ wife) of Rural Water and Cypress Ridge Sewer Company. Division received spreadsheets summarizing the amounts borrowed, payments made, interest rate charged.

These loans have increased in value to now exceed \$500,000. Other than short term loans (less than 12 months) every utility is required to request approval from the Commission to enter into such agreements. Otherwise, they are considered void. Consequently, interest payments are disallowed.

UAFCB recommends Cypress seek immediate approval from the Commission to capitalize the remaining shareholder loans – without accrued interest – by an advice letter or forfeit the loans and interest since they were not authorized by the Commission.

Cypress requests that capitalization of loans be written into this resolution. CROA is pleased that the Division recognizes the impropriety of these unauthorized loans but protests capitalization of them. The Division agrees with UAFCB's recommendation to consider capitalization.

Taxes Other Than Income Taxes

The plant is located on an easement and has no property tax. The Division therefore recommends that expenses for taxes other-than-income be limited to the employer's share of employment taxes for employees. The Division recommends \$15,000 annually based on Social Security and Medicare tax returns.

Rate Base

Cypress has had essentially no rate base because all plant was contributed. However, the plant underwent upgrades resulting from the consultant's recommendations for meeting RWQCB requirements. Reformulating the previously rejected UEMA which included these costs, results in capitalization of \$1,412 for 2007 and \$181,508 for 2008. Division estimation of the depreciation rate for these plant additions for new pumps is 5%. Therefore, \$9,146 adjustment has been made for depreciation.

Cypress disagreed with the Division's calculations and proposed \$143,939 for depreciation but did not supply documentation. CROA claims the Division's depreciation is not documented sufficiently by Cypress. As discussed above, Division's estimate of 5% depreciation rate for new pumps (20 year service life) is reasonable. The

average added capitalization has been added to plant in Appendix A. Even with these changes there is still not a positive rate base.

Rate of Return and Rate of Margin

For 2008 the UAFCB recommended Rate of Margin for Class C and D Water and Sewer Utilities are 19% for Class C and 20% for Class D.

ROM calculations based on Class D allowance yielded revenue recommended by staff for the test year to be \$429,530.

No Rate of Return calculation was made since Cypress has no substantial rate base.

CROA suggests the ROM should remain at 5% as adopted in Res. W-4614 dated October 5, 2006. That rate dealt with the risk factor at that time. The Division believes that the current risk factor is sufficient for the ROM to be 20% which is the Year 2008 recommended rate for Class D utilities.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. However, the utility needs to update the following: Title Page and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.

The RWQCB issued a Clean Up and Abatement Order on January 24, 2008. Subsequently, the owner hired a consultant to determine what changes were needed to comply. The contractor operating the plant was dismissed. Some improvements were made and lately the plant has been in conformance with regulations, however, the RWQCB has not lifted the order and presently has a wait-and-see position on the situation.

Division recommends that Cypress inform the Division on this issue within 90 days after the effective date of this resolution. The Division will then recommend to the Commission if a receivership is merited.

Cypress claims that receivership is not good for the customer or the company and is not merited. Cypress is worried that the RWQCB may decide to keep their Clean Up and Abatement Order (CAO) in place for an indefinite period. The receivership review is influenced by the CAO.

CROA suggests that Cypress be re-evaluated under GO-103A which was adopted on September 10, 2009. This Resolution is for Test Year 2008. Therefore, we will defer it to the next GRC.

The receivership will be considered if the Division recommends it as merited after 90 days from the effective date of this Resolution.

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. Accordingly, this draft resolution was mailed to the utility and a list of people who complained at the public meeting and by letter or email and made available for public comment on September 29, 2009.

Comments received in writing in response to the Notice or the staff report were considered and, where relevant, are reflected in this Resolution. Comments on the draft resolution were received from only Cypress and the CROA attorney.

FINDINGS

1. Cypress is a Class D sewer utility and currently serves 367 residential and 8 commercial sewer customers in its service area near the town of Arroyo Grande, in San Luis Obispo County.
2. The Division's Utility Audit, Finance and Compliance Branch made an independent audit of Cypress' operations. Division's staff report incorporated the audit findings.
3. Cypress has requested \$20,058 in interest for loans to cover expenses in excess of revenue. These loans have increased in value to now exceed \$500,000. Other than short-term loans (less than 12 months) every utility is required to request approval from the Commission to enter into such agreements. Otherwise, they are considered void. Consequently, interest payments are disallowed.
4. Utility, Audit, Finance and Compliance Branch recommends Cypress seek immediate approval from the Commission to capitalize the remaining shareholder loans - without accrued interest - by an advice letter or forfeit the loans and interest since they were not authorized by the Commission.
5. Cypress should add \$182,921 to plant as capitalization of a portion of its UEMA request.
6. Cypress' expenses for uncollected UEMA maintenance cost of \$50,957 should be collected as a surcharge of \$3.77 per month for 36 months.

7. Cypress should establish a memorandum account to post employee labor expenses exceeding \$120,000 annually and apply for approval and collection of accumulated excesses.
8. Rate of Margin calculations based on Class D allowance yielded revenue recommended by staff for the test year to be \$429,530. There is no Rate of Return calculation since Cypress has no substantial rate base.
9. The Division's recommended earnings (Appendix A) are reasonable and should be adopted.
10. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
11. The quantities (Appendix D) used to develop Division's recommendations are reasonable and should be adopted.
12. Cypress should be required to update its tariffs' Title Page, and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.
13. Cypress should inform the Division of the status of the RWQCB Clean Up and Abatement Order within 90 days from the effective date of this resolution. The Division should recommend to the Commission if operation under a receivership

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Cypress Ridge Sewer Company, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, and concurrently cancel its presently effective Schedules 1, Residential Flat Rate Sewer Service; and 2, Commercial Flat Rate Sewer Service. The effective date of the revised rate schedules shall be five days after the date of the filing.
2. Cypress Ridge Sewer Company is ordered to update its tariffs' Title Page, and Schedule UF, Surcharge to Fund Public Utilities Reimbursement Fee.
3. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
4. Cypress Ridge Sewer Company is authorized to file an advice letter within 60 days from the effective date of this resolution to collect under-collected revenues over a 12-month period from the interim rate date to the effective date of the new rates.
5. Cypress Ridge Sewer Company is authorized to establish a memorandum account to post employee labor expenses exceeding \$120,000 annually and is allowed to apply for approval and collection of accumulated excesses.
6. Cypress Ridge Sewer Company is authorized to add \$182,921 to plant as capitalization of Unexpected Expenses Memorandum Account request.

7. Cypress Ridge Sewer Company shall seek immediate approval from the Commission to capitalize the remaining shareholder loans – without accrued interest – by an advice letter accompanied by sufficient supporting materials or forfeit the loans and interest since they were not authorized by the Commission.
8. Cypress Ridge Sewer Company shall inform the Division of Water and Audits within 90 days from the effective date of this resolution on the abatement situation and the Division of Water and Audits shall recommend to the Commission if a receivership is merited.
9. 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 November 20, 2009; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

APPENDIX A
Cypress Ridge Sewer Company
Summary of Earnings - Test Year 2008

	Utility Estimated		Division Estimated		Division
	Present	Requested	Tariff	Proposed	Recommended
	Rates	Amounts	Rates	Rates	ROM Rates
<u>Operating Revenues:</u>					
Unmetered Revenue	\$ 304,972	\$ 504,538	\$ 330,902	\$ 504,538	\$ 429,530
<u>Operating Expenses:</u>					
Purchased Power	\$ 17,067	\$ 22,938	\$ 17,067	\$ 17,067	\$ 17,067
Other Vol. Rel. Exp.	\$ 16,649	\$ 332	\$ 39,150	\$ 39,150	\$ 39,150
Employee Labor	\$ 80,528	-	\$ 120,000	\$ 120,000	\$ 120,000
Contract Work	\$ 424,632	\$ 184,300	\$ 66,000	\$ 66,000	\$ 66,000
Transportation	\$ 3,851	\$ 3,430	\$ 6,700	\$ 6,700	\$ 6,700
Other Plant Maintenance	\$ 36,147	\$ 57,891	\$ 17,981	\$ 17,981	\$ 17,981
Office salaries	\$ 500	\$ 3,133	\$ -	\$ -	\$ -
Management	\$ 7,500	\$ 34,985	\$ 3,000	\$ 3,000	\$ 3,000
Pension & Benefits	\$ 1,792	\$ 14,378	\$ -	\$ -	\$ -
Office Services & Rentals	\$ 1,606	\$ 3,752	\$ 3,289	\$ 3,289	\$ 3,289
Office Supplies & Exp	\$ 1,052	\$ 2,646	\$ 2,224	\$ 2,224	\$ 2,224
Professional Services	\$ 18,933	\$ 11,799	\$ 15,027	\$ 15,027	\$ 15,027
Insurance	\$ 13,903	\$ 15,000	\$ 23,843	\$ 23,843	\$ 23,843
Reg. Comm Expense	\$ 31,289	\$ 13,235	\$ 5,618	\$ 5,618	\$ 5,618
General Expenses	\$ 104	\$ 448	\$ 337	\$ 337	\$ 337
Total operating expenses	\$ 655,553	\$ 368,267	\$ 320,236	\$ 320,236	\$ 320,236
Depreciation expense	\$ -	\$ -	\$ 9,146	\$ 9,146	\$ 9,146
Taxes other than income	\$ 8,477	\$ 4,848	\$ -	\$ -	\$ 15,000
State Tax	\$ -	\$ -	\$ 800	\$ 13,462	\$ 7,567
Federal Income Taxes	\$ -	\$ 26,515	\$ -	\$ 20,824	\$ 11,705
Interest Expense	\$ 26,514	\$ -	\$ -	\$ -	\$ -
Total deductions	\$ 690,544	\$ 399,630	\$ 330,182	\$ 363,668	\$ 363,654
Net Oper Income (Loss)	\$ (385,572)	\$ 104,908	\$ 720	\$ 140,870	\$ 65,876
Avg Plant	\$ 4,760,000	\$ 4,786,700	\$ 4,851,461	\$ 4,851,461	\$ 4,851,461
Avg Accum Depreciation	\$ (656,727)	\$ (729,696)	\$ (661,300)	\$ (661,300)	\$ (661,300)
Net Plant	\$ 4,103,273	\$ 4,057,004	\$ 4,190,161	\$ 4,190,161	\$ 4,190,161
Less: CIAC	\$ (4,760,000)	\$ (4,030,304)	\$ (4,760,000)	\$ (4,760,000)	\$ (4,760,000)
Plus: Working Cash	\$ -	\$ -	\$ 237	\$ 237	\$ 237
Rate Base	\$ (656,727)	\$ 26,700	\$ (569,602)	\$ (569,602)	\$ (569,602)
Rate of Return	\$ -	nil	\$ -	\$ -	\$ -
Rate of Margin	-55%	28%	0%	43%	20%

(END OF APPENDIX A)

APPENDIX B
Cypress Ridge Sewer Service

Schedule No. 1
RESIDENTIAL FLAT RATE SEWER SERVICE
TEST YEAR 2008

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	\$ 99.09	(I)
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SPECIAL CONDITIONS

- (D)
1. All sewer service is subject to a monthly surcharge of \$5.37 for a period of 36 months beginning September 18, 2006, the effective date of Advice Letter No. 4A.
 2. Surcharge of \$8.33, as authorized by Res. W-4671, is for a period of 36 months beginning January 19, 2008.
 3. All sewer service is subject to a monthly surcharge of \$3.77 for a period of 36 months beginning December 1, 2009. (N)
(N)
 4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B
Cypress Ridge Sewer Service

Schedule No. 2
COMMERCIAL FLAT RATE SEWER SERVICE
TEST YEAR 2008

APPLICABILITY

Applicable to all commercial sewer service.

TERRITORY

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

RATES

		Per Connection Per Month		Surcharge Per Month (Res. W-4671)
For	Golf Pro Shop	\$ 99.09	(I)	\$ 8.13
For	Golf Maintenance Facility	\$ 99.09	(R)	\$13.53
For	Commercial/Office Facility	\$ 99.09	(R)	\$11.16
For	Pavilion	\$ 99.09	(R)	\$11.16
		Surcharge Per Month (Res. W-4612)		Surcharge Per Month (GRC)
For	Golf Pro Shop	\$ 3.60		\$3.77 (I)
For	Golf Maintenance Facility	\$ 8.72		\$3.77 (I)
For	Commercial/Office Facility	\$ 7.19		\$3.77 (I)
For	Pavilion	\$ 7.19		\$3.77 (I)

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. Bills will be rendered in advance of the period for which service will be provided. (D)
3. Surcharge as authorized by Res. W-4612 is for a period of 36 months beginning September 18, 2006.
4. Surcharge as authorized by Res. W-4671 is for a period of 36 months beginning January 19, 2009.
5. All sewer service is subject to a monthly surcharge of \$3.77 for a period of 36 months beginning December 1, 2009. (N)
(N)
6. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

APPENDIX C

Cypress Revenue Calculation for Test Year 2008

ROM

$$\begin{aligned}\text{Revenue Requirement} &= (\text{O\&M} + \text{Depreciation} + \text{Income Tax} + \text{Other Tax}) \\ &\quad + \text{ROM} (\text{O\&M} + \text{Depreciation} + \text{Income Tax} + \text{Other Tax}) \\ &= \$363,654 + 0.20 \times \$329,382 \\ &= \$429,530\end{aligned}$$

Comparison of Rates for Test Year 2008

Per Service Connection per month

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Residential	\$ 77.30	\$ 99.09	28.2%
Golf Pro Shop	\$ 52.18	\$ 99.09	89.9%
Golf Maintenance Facility	\$126.18	\$ 99.09	-27.3%
Office Facility	\$104.08	\$ 99.09	-5%
Pavilion	\$104.08	\$ 99.09	-5%

(END OF APPENDIX C)

APPENDIX D
Cypress Ridge Sewer Company
Adopted Quantities - Test Year 2008

Purchased Power

Pacific Gas & Electric

Schedule No. A-1, Small General Service

Cypress Ridge Sewer and Rural Water power charges are split on PG&E Account #4715993741 26.9% and 73.1%.

For 2008 Cypress Ridge Sewer:

Total kWh	107,721
Total Cost	\$17,373

Property Taxes	\$ 0
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Service Connections

Residential	367
Commercial	8

Tax Calculations

Federal Tax Rate:	15%
CCFT:	8.84%

<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>	
Operating Revenue	\$ 429,983	\$ 429,983	interim calc
O&M Expense	\$ 320,237	\$ 320,237	
Taxes Other than Income	\$ 15,000	\$ 15,000	
Depreciation	\$ 9,146	\$ 9,146	
Interest	\$ 0	\$ 0	
Taxable Income for CCFT	\$ 85,600		
CCFT	\$ 7,567		
Taxable Income for FIT		\$ 78,033	
FIT		\$ 11,705	
Total Income Tax		\$ 19,272	

(END OF APPENDIX D)