

WATER/RSK/PTL/AAS/jlj

DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch

RESOLUTION NO. W-4881
July 14, 2011

RESOLUTION

**(RES. W-4881), MEADOWBROOK WATER COMPANY
(Meadowbrook). ORDER AUTHORIZING A GENERAL RATE
INCREASE (GRC), PRODUCING ADDITIONAL ANNUAL
REVENUE OF \$217,746 OR 33.0% FOR TEST YEAR 2010.**

SUMMARY

By Advice Letter (AL) 55 filed on November 23, 2010, Meadowbrook seeks to increase its rates for water service to recover operating expenses and earn an adequate return on its plant improvement.

For Test Year 2010, this resolution grants an increase in gross revenues of \$217,746 or 33.0%, which is estimated to provide a rate of return of 12.25%.

BACKGROUND

Meadowbrook, a Class C water utility, is requesting authority under Rule 7.6.2 of General Order 96-B (G.O. 96-B), and Water Industry Rule 7.3.3 (5), and Section 454 of the Public Utilities Code to increase its rates by \$301,232 or 45.7%.

The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Meadowbrook's request shows 2010 gross revenues of \$659,570 at present rates increasing to \$960,802 at the proposed rates.

The last GRC became effective on October 24, 2002, pursuant to Res. W-4359, which granted an increase in revenues of \$91,186 or 32.1%. Current rates became effective on November 23, 2010, per AL 54 which requested a 2.7% interim rate increase for a Consumer Price Index (CPI) increase.

Meadowbrook is a Class C water utility serving 1,562 flat rate and metered customers in Merced County approximately 1.5 miles northwest of Merced, CA.

Meadowbrook obtains its water from three wells. The water is stored in seven tanks: two tanks (28,000 gallons and 4,500 gallons) are at Well No. 6; three tanks (33,000 gallons, 22,000 gallons and 22,000 gallons) are at Well No. 4; and two tanks (22,000

gallons and 16,000 gallons) are at Well No. 5. The backup generators failed and have not been replaced with a newer model which would not be cost effective at \$50,000. Meadowbrook has prepared for power outages by having staff take emergency response training and attaining priority for fast restoration of service on the power grid.

NOTICE, PROTESTS, AND PUBLIC MEETING

AL 55 was served in accordance with G. O. 96-B on November 17, 2010.

A notice of the proposed rate increase was mailed to each customer on November 17, 2010.

A public meeting was held on December 15, 2010, at the Joe Stefani School, 2768 Ranchero Lane, Merced, CA. Ten people attended the meeting. The Division of Water and Audits (Division) staff explained the process of the rate increase at the Commission while Meadowbrook's representative reviewed the rate request. The customers' concerns included recognition for low-income people and the size of the increase. There was one written customer protest which expressed a general dissatisfaction with management. Meadowbrook provided a factual explanation of costs. Division is satisfied with Meadowbrook's response and requested that the customer be added to the service list.

DISCUSSION

Division staff made an independent analysis of Meadowbrook's operations. Appendix A shows Meadowbrook's and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2010. Meadowbrook is in agreement with the Division's recommended revenue requirement and the rates shown in Appendix B.

The Division staff reviewed Meadowbrook's 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. The Division verified the operating expenses by reviewing annual reports, and supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonably necessary.

There are two methods available for the Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. The Division's Utility Audit, Finance and Compliance Branch currently recommends a Rate of Margin of 21.7% and a Rate of Return from 11.75 % to 12.75 % for a Class C, 100% equity-financed utility. Per Decision 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. Division has determined that the rate of

return of 12.25% produces the higher revenues of \$877,316 compared with rate of margin revenue calculations of \$733,892 and therefore recommends the rate of return method.

Meadowbrook has requested a revenue increase of \$301,232 from its present revenue of \$659,570, which would yield an annual revenue of \$960,802 and which would be a 12.79% rate of return.

Meadowbrook's current rate structure consists of two schedules: Nos. 1, General Metered Service and 2R, Flat Rate Service. There is only one flat rate customer. At the rates proposed by the Division shown in Appendix C, the bill for a typical Meadowbrook customer would increase from \$40.58 to \$60.61 or 49.36%.

At the recommended rates the increase in revenue will be 217,746 or 33.0% for TY 2010.

The adopted quantities and tax calculations are shown in Appendix D.

Purchased Water

Meadowbrook has requested \$23,719 for purchased water. This charge is in addition to the charges for water provided to the customers with its expenses already detailed in Operating Expenses. Therefore, Division has disallowed this expense.

Management

Meadowbrook has requested \$105,436 for this category. Division has allocated \$60,000 as a reasonable expense for this type of operation.

Regulatory Commission Expenses

The expenses for this category are listed as Department of Public Health (DPH) mandated testing. These expenses are for DPH user fees and sampling, testing, and compliance costs. These costs are listed by Meadowbrook as \$4,230 for FY 2007, \$23,089 for FY 2008 and \$9,612 for FY 2009. For TY 2010, Meadowbrook has requested only \$2,000 for this category, which Division has allowed in rates to offset future expenses. If Meadowbrook incurs DPH user fees and sampling, testing, and compliance costs in excess of this rate authorization, Meadowbrook may submit separate Tier 1 ALs in the future to recover these expenses when they occur, as allowed for by Res. W-4698.

In Res. W-4698, the Commission authorized Class B, C and D utilities to establish, as of July 31, 2008, balancing accounts in which to record DPH user fees and sampling, testing, and compliance costs incurred after July 31, 2008, and not already covered in rates.¹ There, the Commission stated that recovery of these costs should be by an advice

1. Per Res. W-4698, Class B, C and D utilities may not book in these accounts fines and other monetary penalties related to water quality matters.

letter requesting amortization of a balancing account, i.e., a Tier 1 advice letter. Also, pursuant to Res. W-4698, expenses incurred prior to 36 months from the date of filing for recovery shall not be allowed.

In addition to the authorization for future expenses discussed above, consistent with the authorization in Res. W-4698, Meadowbrook may submit a Tier 1 advice letter to recover past DPH user fees and sampling, testing, and compliance costs, which Meadowbrook incurred after July 31, 2008, and which Meadowbrook has not already recovered in rates.² Per Res. W-4698, Meadowbrook may not recover such expenses incurred prior to 36 months from the date of filing of the recovery request.

Private Fire Protection Service

Meadowbrook's current Private Fire Protection rate is \$3.71 per inch per month. Meadowbrook has requested \$3.62 per inch per month based upon an increased number of users. Division concurs with the requested rates.

Taxes

Division notes that a discrepancy exists between Meadowbrook's estimated taxes and actual tax rate schedules. Actual taxes were used in Appendix A for proposed rates.

Conservation

A two-tier rate structure has been designed for Meadowbrook to achieve water conservation. Customers who use only the nominal amount of water in the peak month of July and stay in the first tier of water use would see a reduction in their bill from \$40.58 to \$29.83.

COMPLIANCE

Meadowbrook has no outstanding compliance orders. The utility has been filing annual reports as required. The California Department of Public Health reports that

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2. Based on the information Meadowbrook provided in AL 55, it is possible that Meadowbrook may have such unrecovered expenses, although we do not know if that is indeed the case here. We note that 36 months have not passed since July 31, 2008, the date after which the Commission authorized Meadowbrook to start tracking for recovery DPH user fees and sampling, testing, and compliance costs not already covered in rates. Accordingly, if Meadowbrook has any such past costs for which it wants to seek recovery, Meadowbrook is advised to file a Tier 1 advice letter before July 31, 2011 (i.e. within 36 months from July 31, 2008) in order to be able to recover all such past costs, consistent with the directives in Res. W-4698. If Meadowbrook files an advice letter for recovery of any such past costs after July 31, 2011, it will only be able to recover costs incurred within 36 months from the date of the filing of the request, as provided for by Res. W-4698.

water quality meets standards. Meadowbrook should file a Tier 1 advice letter within 30 days from the effective date of this resolution revising in its tariff book the Title Page and Schedule UF, Surcharge to Fund CPUC Reimbursement Fee.

Meadowbrook's Annual Reports and submissions contain numerous inconsistencies and lack quantity designations. Meadowbrook's 2010 Annual Report should be updated in compliance with this GRC.

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 protestant and made available for public comment on June 6, 2011.

FINDINGS

1. Meadowbrook has requested authority to increase its water rates by \$301,232 or 45.7%
2. Meadowbrook provides water service to 1,562 flat rate and metered customers in Merced County.
3. The present rates became effective on November 23, 2010, with the approval of a Consumer Price Index rate increase of \$10,130 or 2.7%.
4. For Test Year 2010, it is appropriate to grant Meadowbrook an increase in gross revenues of \$217,746 or 33.0%, which is estimated to provide a rate of return of 12.25%.
5. Meadowbrook's request for private fire protection service fees is reasonable.
6. Meadowbrook is in agreement with the Division of Water and Audits' recommended rates.
7. The Division of Water and Audits' recommended earnings (Appendix A) are reasonable and should be adopted.
8. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
9. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are reasonable and should be adopted.

10. Meadowbrook should file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following pages in its tariff book: Title Page and Schedule UF, Surcharge to Fund CPUC Reimbursement Fee.
11. Meadowbrook's 2010 Annual Report should be updated in compliance with this GRC.
12. Per Res. W-4698, Class B, C, and D utilities were authorized to establish, as of July 31, 2008, balancing accounts in which to record Department of Public Health user fees and sampling, testing, and compliance costs incurred after July 31, 2008, and not already covered in rates, and to apply for recovery of these costs by an advice letter requesting amortization of a balancing account, i.e., a Tier 1 advice letter. Also, Res. W-4698 disallowed recovery of expenses incurred prior to 36 months from the date of filing for recovery.
13. Meadowbrook may file Tier 1 advice letters to recover Department of Public Health user fees and sampling, testing, and compliance costs incurred after July 31, 2008, and not already covered in rates. Expenses incurred prior to 36 months from the date of filing for recovery shall not be allowed.

THEREFORE IT IS ORDERED:

1. Authority is granted under Public Utilities Code Section 454 to Meadowbrook Water Company to file a supplement to Advice Letter 55 to make effective the revised and added schedules attached to this resolution as Appendix B and concurrently cancel its presently effective rate schedules Nos. 1, General Metered Service, and 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
3. Meadowbrook Water Company shall file a Tier 1 advice letter within 30 days from the effective date of this resolution to update the following pages in its tariff book: Title Page and Schedule UF, Surcharge to Fund CPUC Reimbursement Fee.
4. Meadowbrook Water Company is authorized to file Tier 1 advice letters to recover Department of Public Health user fees and sampling, testing, and compliance costs incurred after July 31, 2008, and not already covered in rates. Expenses incurred prior to 36 months from the date of filing for recovery shall not be allowed.

July 14, 2011

5. 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 July 14, 2011, the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

APPENDIX A
Meadowbrook Water Company
Summary of Earnings – Test Year 2010

	Utility Estimated		Division Estimated		Division
	Present	Requested	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	ROR Rates
Operating Revenues:					
Water Sales	\$ 649,318	\$ 950,550	\$ 649,318	\$ 950,550	\$ 867,064
Private Fire Protection Sys	\$ 10,252	\$ 10,252	\$ 10,252	\$ 10,252	\$ 10,252
Total	\$ 659,570	\$960,802	\$ 659,570	\$960,802	\$ 877,316
Operating Expenses:					
Purchased Power	\$ 72,695	\$ 72,695	\$ 72,695	\$ 72,695	\$ 72,695
Purchased Water	\$ 23,719	\$ 23,719	\$0	\$0	\$0
Other Vol. Rel. Exp.	\$ 3,066	\$ 3,066	\$ 3,066	\$ 3,066	\$ 3,066
Employee Labor	\$ 43,659	\$ 43,659	\$ 43,659	\$ 43,659	\$ 43,659
Materials	\$ 8,857	\$ 8,857	\$ 8,857	\$ 8,857	\$ 8,857
Contract Work	\$ 12,464	\$ 12,464	\$ 12,464	\$ 12,464	\$ 12,464
Transportation	\$ 16,605	\$ 16,605	\$ 16,605	\$ 16,605	\$ 16,605
Other Plant Maintenance	\$ 26,383	\$ 26,383	\$ 26,383	\$ 26,383	\$ 26,383
Office salaries	\$ 53,364	\$ 53,364	\$ 53,364	\$ 53,364	\$ 53,364
Management	\$105,436	\$105,436	\$ 60,000	\$ 60,000	\$ 60,000
Employee Pension & Bnfts	\$0	\$0	\$0	\$0	\$0
Uncollectibles	\$0	\$0	\$0	\$0	\$0
Office Services & Rentals	\$ 5,134	\$ 5,134	\$ 5,134	\$ 5,134	\$ 5,134
Office Supplies & Exp	\$ 18,258	\$ 18,258	\$ 18,258	\$ 18,258	\$ 18,258
Professional Svcs	\$ 17,106	\$ 17,106	\$ 17,106	\$ 17,106	\$ 17,106
Insurance	\$ 32,777	\$ 32,777	\$ 32,777	\$ 32,777	\$ 32,777
Regulatory Comm Exp.	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
General Expenses	\$ 16,802	\$ 16,802	\$ 16,802	\$ 16,802	\$ 16,802
Total Operating Expenses	\$ 458,325	\$ 458,325	\$ 389,170	\$ 389,170	\$ 389,170
Depreciation Expense	\$ 58,332	\$ 58,332	\$ 58,332	\$ 58,332	\$ 58,332
Taxes other than income	\$ 27,384	\$ 27,384	\$ 27,384	\$ 27,384	\$ 27,384
CA Franchise Tax	\$ 9,250	\$ 36,774	\$ 15,420	\$ 42,049	\$ 35,575
Federal Income Taxes	\$ 10,143	\$ 128,790	\$45,265	\$152,360	\$ 126,323
Interest Expense	\$ -	\$ -	-	-	\$ -
Total Deductions	\$ 563,434	\$ 709,605	\$ 535,571	\$ 669,295	\$ 636,784
Net Revenue	\$ 85,884	\$ 240,945	\$ 113,747	\$ 281,255	\$ 240,531
Rate Base:					
Avg Plant	\$ 2,389,509	\$2,389,509	\$ 2,389,509	\$ 2,389,509	\$ 2,389,509
Avg Dep Res	\$ 463,085	\$ 463,085	\$ 463,085	\$ 463,085	\$ 463,085
Net Plant	\$ 1,926,424	\$1,926,424	\$ 1,926,424	\$ 1,926,424	\$ 1,926,424
Less: CIAC	0	0	0	1	0
Plus: Materials & Supplies	\$ 7,600	\$ 7,600	\$ 7,600	\$ 7,600	\$ 7,600
Working Cash	\$ 29,498	\$ 29,498	\$ 29,498	\$ 29,498	\$ 29,498
Rate Base	\$ 1,963,522	\$1,963,522	\$ 1,963,522	\$ 1,963,523	\$ 1,963,522
Rate of Return	4.4%	12.27%	5.79%	14.32%	12.25%
Rate of Margin	16.6%	46.6%	25.4%	62.9%	51.5%

(END OF APPENDIX A)

APPENDIX B
Sheet 1
MEADOWBROOK WATER COMPANY
Schedule No. 1
GENERAL METERED SERVICE
Test Year 2010

APPLICABILITY

Applicable to all metered rate water service.

TERRITORY

The unincorporated area known as Meadowbrook Tract, including Nos. 1 and 2, located approximately 1-1/2 miles northwest of the city of Merced, Merced County.

RATES

	Per Ccf	
	<u>Per Month</u>	
Quantity Rate:		
First 15 x 100 cu. ft. (Ccf)	\$ 0.95	(I)
All water in excess of 1500 cu. ft.	\$ 1.14	(N)
	Per Meter	
	<u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 15.58	(I)
For 3/4-inch meter	15.58	
For 1-inch meter	38.95	
For 1-1/2-inch meter	77.90	
For 2-inch meter	124.64	
For 3-inch meter	233.70	
For 4-inch meter	389.50	
For 6-inch meter	770.00	(I)

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

SPECIAL CONDITIONS

1. The established billing cycle for General Metered Service is every month.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
3. A late charge will be imposed as per Schedule No. LC.
4. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.

APPENDIX B
Sheet 2
MEADOWBROOK WATER COMPANY
Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE
Test Year 2010

APPLICABILITY

Applicable to all water service furnished to private fire protection service customers.

TERRITORY

The unincorporated area known as Meadowbrook Tract, including Nos. 1 and 2, located approximately 1-1/2 miles northwest of the city of Merced, Merced County.

RATES

		Per Connection
		<u>Per Month</u>
Service Charge:		
For	4-inch connection	\$ 14.48 (N)
For	6-inch connection	\$ 21.72 (R)
For	8-inch connection	\$ 28.96 (R)

SPECIAL CONDITIONS

1. The private fire protection service facilities shall be installed by the utility or under the utility's direction and shall be the sole property of the applicant but subject to the control of the utility, with the right to alter, repair, replace and the right to remove upon discontinuance of service. The customer will pay, without refund, the entire cost of the private fire protection service facilities. (C)
2. The minimum diameter for fire protection shall be four inches and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size is not adjacent to the premises to be served, then a new main from the nearest existing main of adequate size will be installed by the utility and the cost paid by the customer. Payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connection for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction are installed according to specification of the utility and are maintained to the satisfaction of the utility. The utility may install the standard detector-type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost be paid by the applicant.
5. The utility will supply only such water at such pressure as may be available as a result of its normal operation of the system.
6. All bills are subject to reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C

MEADOWBROOK WATER COMPANY

COMPARISON OF RATES

Comparison of Rates for Test Year 2010

1,477 of the 1,562 connections are for 5/8 inch meters

For these customers in the month of July using 42 Ccf , the comparison for a typical usage would be:

<u>Present Svc Charge</u>	<u>Present Nom Qty</u>	<u>Excess Qty</u>	<u>Present Total</u>
\$13.74	$\$0.639 \times 42 \text{ Ccf} = \26.84		\$ 40.58
<u>New Svc Charge</u>	<u>New Nom Qty</u>	<u>Excess Qty</u>	<u>New Total</u>
\$ 15.58	$\$0.95 \times 15 \text{ Ccf} = \14.25	$\$1.14 \times 27 \text{ Ccf} = \30.78	\$60.61

The expectation for instituting the second tier is to achieve a reduction in water usage. For the example shown above, this would reduce consumption for customers using only a nominal quantity of water to only the first tier and result in a water bill of \$29.83 instead of the present \$40.58.

(END OF APPENDIX C)

APPENDIX D
Meadowbrook Water Company
ADOPTED QUANTITIES - TEST YEAR 2010

Purchased Power

Pacific Gas & Electric	<u>Total Cost</u>
	\$ 58,162
MID	<u>\$ 14,533</u>
	\$ 72,695

<u>Size</u>	<u>Service Connections</u>	<u>PFS Connections</u>
5/8"	1,477	
3/4"	6	
1"	51	
1-1/2"	5	
2"	11	
3"	2	
4"	10	
6"	2	18
8"	0	16
	1,562	34

Consumption (2010) 477,057 Ccf

Tax Calculations

Federal Tax Rate:	15% for first \$50,000
	25% for next \$25,000
	34% for next \$25,000
	39% for over \$100,000
CCFT:	8.84%

<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
Operating Revenue	\$877,316	
Operating Expense	\$389,170	
Taxes Other Than Income	\$ 27,384	
Depreciation	\$ 58,332	
Interest	\$ 0	
Taxable Income for CCFT	\$402,430	
CCFT	\$ 35,575	
Taxable Income for FIT		\$ 366,855
FIT		\$ 126,323
Total Income Tax		\$ 161,898

(END OF APPENDIX D)