

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4625

December 14, 2006

R E S O L U T I O N

(RES. W-4625), LAKE FOREST WATER COMPANY (LFWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING AN INCREASE IN GROSS ANNUAL REVENUES
OF \$88,115 OR 160.7%.

SUMMARY

By Draft Advice Letter accepted on March 9, 2006, LFWC requested an increase in rates to produce an increase in annual revenue of \$96,200, or 178.6% for test year 2006. This resolution grants LFWC a general rate increase in gross annual revenues of \$88,115 or 160.7%.

BACKGROUND

LFWC is a Class D water utility and serves approximately 112 customers, 1 metered and 111 flat rate customers, located in Lake Forest adjacent to State Highway 28 and approximately 2 miles northeast of the community of Tahoe City, Placer County.

LFWC requested authority under Section VI of General Order 96 and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$96,200 or 178.6% in test year 2006. LFWC's request shows 2006 gross revenues of \$54,837 at present rates increasing to \$150,037 at proposed rates to produce a rate of return on rate base of 14.0%.

LFWC's present rates at the time of filing became effective on February 9, 1998, pursuant Decision (D.) 92-03-093, which authorized a Consumer Price Index increase. The last general rate increase was adopted on May 29, 1988, pursuant to D.88-04-024 which granted an increase of \$14,137 or 42.1% with a 11.6% rate of return on the rate base. The current interim rates were authorized by Resolution (Res.) No.W-4606 on June 29, 2006, to provide the LFWC with sufficient income to recover its operating expenses.

NOTICE

A notice of the full increase request was mailed to the customers on March 18, 2006. A revised notice to the customers with corrected rates was mailed on May 25, 2006. A public meeting was held at Fairway Community Center, Tahoe City, CA on April 19, 2006 at 6:00 P.M. The division staff, along with the LFWC manager conducted the meeting. About 4 customers attended the meeting. Customers protested about the magnitude of the requested rate increase, water quality, and the company's record keeping procedures, and they asked questions about water operation matters. The Division staff explained the rate making process and, along with the LFWC manager and consultant, addressed customer's concerns.

PROTESTS

The Branch received several letters of complaint regarding the proposed rate increase, poor water quality and pressure. All the letters complained about poor service and are against such a large increase in rates. The utility responded to the complaints and provided a fact sheet explaining the need for an increase and that it had not filed for a general rate increase for over ten years.

DISCUSSION

LFWC is currently operating at a loss. The rate increase request was based on financial information for the period from January through December 2004 and 2005. After an analysis of these records, the Audit and Compliance Branch (A&C) estimated an interim increase of \$35,000 in order for the utility to meet its cash-flow requirements and the utility was granted the increase by Res. No. W-4606, dated June 29, 2006.

The Division made an independent analysis of LFWC's operations. Appendix A shows LFWC's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2006. LFWC is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses and rate base. It determined that the historical and the projected operating expenses and rate base for the test year 2006 to be generally reasonable.

The Division rejects a subsequent request for a surcharge to recover additional power costs of \$9,041 incurred over the last five years ending in 2005 and purchased water costs of \$56,479 from July 2003 to January 2006 which were not recovered by LFWC in its existing rates. LFWC never filed for a memorandum account or maintained a balancing account to track the costs nor requested recovery of these costs in a timely

manner. Allowing LFWC to recover these past costs will amount to retroactive ratemaking. However, LFWC is authorized to maintain a balancing account to track changes in both purchased power and purchased water costs for the future.

LFWC has requested a rate of return of 14.0%. The Division's A&C recommends a rate of return from 12.75% to 13.75% for a Class D, 100% equity-financed utility. Two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return, 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 utilities using the rate of return on rate base and rate of margin methods. Both methods are to be used. Per D.92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the rate of margin method, the utility's return is defined as the sum of its operating and maintenance expenses, depreciation, income, and other taxes, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. A&C has recommended a rate of margin of 25% for Class D water utilities. A comparison of two methods indicates that a rate of return on rate base method produces a higher return; therefore, the Division recommends the rate of return on rate base method.

LFWC's present rate structure consists of two schedules: Schedule No. 1A, Metered Service, and Schedule No. 2A, Flat Rate Service. The Rates proposed by the Branch are shown in Appendix B. At the recommended rate of return on rate base the increase in revenue will be \$88,115 or 160.7% for test year 2006.

At the Division's recommended rates shown in Appendix B, the annual bill for a flat rate residential customer would increase from interim rate of \$441.87 to \$676.83 or 53.17%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

LFWC should meter all of its flat rate customers in the future. Installation of a meter will promote conservation of its water resources as well as provide LFWC with greater information on its water loss. LFWC will be able to repair water leaks in timely fashion. LFWC must submit a plan to meter all its flat rate customers at the time of its next general rate case filing.

COMPLIANCE

LFWC has a Department of Health Services (DHS) outstanding compliance order to install equipment to monitor chlorine continuously. DHS shows compliance issues for lack of permanent source of water which meets drinking water quality standards. LFWC plans to comply with DHS requirements and file for rate base offset for system improvements.

LFWC needs to update the following schedules in its tariff book: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

COMMENTS

Pursuant to PU Code Section 311(g) (1), this resolution is mailed to interested parties for a 30-day public review and comment. LFWC has filed comments. WD is working with one utility on disputed issues which will be resolved in subsequent advice letters.

FINDINGS

1. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. Recovery of past costs without having a memorandum account or balancing account in place will constitute retroactive ratemaking.
5. LFWC should be allowed to have a balancing account to track its purchased water and power costs.
6. LFWC has 111 flat rate customers and one metered customer.
7. LFWC should have a plan to meter all its flat rate customers.
8. LFWC should update the following schedules in its tariff book: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

9. LFWC should comply with DHS requirements and implement other system improvements and file for rate base offset when the projects are completed and determined to be used and useful.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Lake Forest Water Company, Inc. to file an advice letter incorporating the summary of earnings and the rates in Schedules Nos. 1A, Annual Metered Service, and 2A, Annual Flat Rate Service, attached to this resolution as Appendices A and B, respectively, and concurrently cancel the presently effective rate Schedules Nos. 1A and 2A. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be five days after the date of filing.
2. Lake Forest Water Company will comply with DHS compliance issues and implement system improvements and be authorized to file for rate base offset once the projects are completed and determined to be used and useful.
3. Lake Forest Water Company is authorized to increase its annual revenues by \$88,115 or 160.7% for test year 2006.
4. Lake Forest Water Company is authorized to maintain a balancing account to track its purchased water and power costs.
5. Lake Forest Water Company is ordered to submit a plan to meter all its flat rate customers at the time of its next general rate case filing.
6. Lake Forest Water Company shall update the following schedules in its tariff book: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.
7. 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 December 14, 2006; the following Commissioners voting favorably thereon:

/s/ STEVE LARSON

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President

GEOFFREY F. BROWN

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

Resolution W-4625
LFWC/Draft AL/SNR/PTL/TKM/jlj

December 14, 2006

Commissioners

APPENDIX A

LAKE FOREST WATER COMPANY

SUMMARY OF EARNINGS

Test Year 2006

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Metered Rates	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Flat Rates	\$ 53,837	\$ 149,037	\$ 53,837	\$ 149,037	\$ 141,952
Total	\$54,837	\$150,037	\$54,837	\$150,037	\$142,952
<u>Operating Expenses</u>					
Purchased Water	20,000	20,000	24,000	24,000	24,000
Power	8,000	8,000	12,000	12,000	12,000
Other Volume Related	900	900	1,200	1,200	1,200
Employee Labor	13,000	13,000	12,000	12,000	12,000
Materials	2,500	2,500	2,500	2,500	2,500
Contract Work	4,000	4,000	3,300	3,300	3,300
Transportation Exp.	2,000	2,000	2,400	2,400	2,400
Other Plant Maintenance	1,500	1,500	1,200	1,200	1,200
Office Salaries	1,000	1,000	1,000	1,000	1,000
Management Salaries	10,000	10,000	10,000	10,000	10,000
Employee Benefits	1,588	1,588	1,600	1,600	1,600
Reg. Commission Exp	2,500	2,500	2,500	2,500	2,500
Office Suppl. & Exp.	1,400	1,400	1,500	1,500	1,500
Professional Services	5,000	5,000	4,800	4,800	4,800
Insurance	1,500	1,500	1,500	1,500	1,500
Uncollectibles	1,500	1,500	1,500	1,500	1,500
General Expenses	1,300	1,300	1,200	1,200	1,200
Subtotal	\$77,688	\$77,688	\$84,200	\$84,200	\$84,200
Depreciation Expense	\$6,120	\$6,120	\$6,120	\$6,120	\$6,120
Property Taxes	95	95	95	95	95
Interest Expense	6,887	6,887	0	0	0
State Income Tax	800	800	800	4,644	4,644
Federal Income Tax	0	14,878	0	7,184	7,184
Total Deductions	\$91,590	\$106,468	\$91,215	\$102,243	\$102,243
<u>Net Revenue</u>	-\$36,753	\$43,569	-\$36,378	\$47,794	\$40,709
<u>Rate Base</u>					
Average Plant	379,205	379,205	379,205	379,205	379,205
Avr. Accum. Deprec.	68,221	68,221	68,221	68,221	68,221
Net Plant	310,984	310,984	310,984	310,984	310,984
Add: Materials	0	0	0	0	0
Working Cash	83	83	8,300	8,300	8,300
Less: Contributions	0	0	0	0	0
Advances	0	0	0	0	0
<u>Rate Base</u>	\$311,067	\$311,067	\$319,284	\$319,284	\$319,284
<u>Rate of Return</u>	-11.82%	14.01%	-11.39%	14.97%	12.75%

APPENDIX B
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LAKE FOREST WATER COMPANY
Test Year 2006

The Water Division recommends that the proposed rates shown below be granted to LFWC:

Schedule No. 1A - Metered Service:

Quantity Rates:

	<u>Present Rates</u>	<u>Proposed Rates</u>
All usage, per 100 cu. ft.	\$ 1.61	\$ 4.48

Service Charge:

	<u>Present Rates</u>	<u>Proposed Rates</u>
	<u>Per Year</u>	
For 5/8 - inch meter	\$ 138.02	\$ 359.82
For 3/4 - inch meter	\$ 153.05	\$ 399.00
For 1 - inch meter	\$ 207.53	\$ 541.03
For 1 1/2 - inch meter	\$ 277.41	\$ 723.21
For 2 - inch meter	\$ 373.03	\$ 972.49
For 3 - inch meter	\$ 694.17	\$1,809.70
For 4 - inch meter	\$ 941.51	\$2,454.52

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LAKE FOREST WATER COMPANY
Test Year 2006

Schedule No. 2A – Flat Rate Service:

	Per Service Connection Per Year	
	Present Rates	Proposed Rates
For a single-family residential unit including premises	\$259.62	\$ 676.83
For each additional single-family residential unit on the same premises and served from the same service connection	\$194.03	\$ 505.84
For Motels or recreational vehicle parks First Manager's Unit	\$259.62	\$ 676.83
(a) For each additional motel or vehicle unit on the same premises and served from the same connection	\$ 98.48	\$ 256.74
Single unit commercial units having minimum fixtures described as one hose bib or standpipe	\$194.03	\$ 505.84
Double commercial units with less than 1,500 sq.ft. having minimum fixtures in each unit	\$338.06	\$1,011.67
Intermediate commercial less than 2,000 sq.ft. 1-inch service lines, additional fixtures than minimum, additional uses such as landscaping, power/steam wash, or one living accommodation unit	\$457.78	\$1,193.40
Commercial warehouse buildings with office facilities, separate bays, less than 2,000 sq.ft.	\$457.78	\$1,193.40
Commercial warehouse building with office facilities, separate bays, more than 2,000 cu.ft.	\$646.36	\$1,685.06
Utility maintenance station, large commercial with one living accommodation, parks, beaches	\$646.36	\$1,685.06
(a) Each additional living unit	\$191.33	\$ 498.80

APPENDIX C

LAKE FOREST WATER COMPANY

COMPARISON OF RATES

Test Year 2006

A comparison of the present and Branch's recommended rates is shown below:

Comparison of single family residential unit yearly customer bill at present and authorized rates for flat rate service:

Per Service Per Year		Increase	
Interim Present Rate	Recommended Rate	Amount	Percent
\$259.62	\$676.83	\$417.21	160.70%

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LAKE FOREST WATER COMPANY

ADOPTED QUANTITIES
Test Year 2006

Expenses:

1. Purchased Power (Electric)	
Vendor	Sierra Pacific Power
Schedules	A-1
Effective Date	9/1/2006
Total Cost (\$)	\$12,000
kWh	90,000
2. Purchased Water	\$24,000
	9 Million gallons
Effective Date	1/1/2006
3. Insurance Expenses	\$1,500
4. Ad Valorem Taxes	\$95
5. Other Volume Related	\$1,200
6. Payroll	\$23,000
7. Number of Service Connections:	
Metered Rate	
5/8 x 3/4-inch service	0
3/4-inch service	0
1-inch service	0
1-1/2-inch service	1
2-inch service	0
Flat Rate	<u>111</u>
Total	112

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LAKE FOREST WATER COMPANY

ADOPTED QUANTITIES
Test Year 2006

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$142,952	\$142,952
2.	O & M Expenses	\$ 84,200	\$ 84,200
3.	Taxes Other Than Income	\$ 95	\$ 95
4.	Depreciation	\$ 6,120	\$ 6,120
5.	Taxable Income for State Tax	\$ 52,537	
6.	State Tax	\$ 4,644	
7.	Taxable Income for FIT		\$ 47,893
8.	Federal Income Tax		\$ 7,184
9.	Total Income Tax		\$ 11,828
California Corporate Franchise Rate		8.84%	
Federal Income Tax Rate		15%	