

WATER/RSK/PTL/LEP/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water & Sewer Advisory Branch

RESOLUTION NO. W-4693
June 26, 2008

R E S O L U T I O N

**(RES. W-4693), MIRA MONTE WATER COMPANY (Mira Monte).
ORDER AUTHORIZING A GENERAL RATE INCREASE,
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$1,655 OR
7.5% FOR TEST YEAR 2008.**

SUMMARY

By Draft Advice Letter filed on November 13, 2007, Mira Monte seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on December 10, 2007.

For Test Year 2008 this resolution grants an increase in gross annual revenues of \$1,655 which is estimated to provide a rate of margin of 20%.

BACKGROUND

Mira Monte, a Class D water utility, has requested authority under 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 water rates by \$2,043 or 9.3% for test year 2007. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Mira Monte's requests shows 2007 gross revenues of \$22,041 at present rates increasing to \$24,082 at proposed rates. Mira Monte is requesting a rate of return of 13.4%.

The last general rate case for Mira Monte was granted on August 21, 2003, by Res. W-4416 which granted an increase of annual revenues of \$4,017 or 24.2% for test year 2002 and an additional \$494.23 or 2.4% Consumer Price Index (CPI) increase for 2003. This increases provided a rate of return of 12.9%.

Mira Monte serves approximately 40 metered customers and 3 flat rate customers in an unincorporated area known as the Mira Monte Estates subdivision, located roughly five miles west of the City of Red Bluff, Tehama County. The number of customers is not

expected to increase. The Mira Monte's service area covers less than one square mile of territory. Mira Monte's customers are a mixture of retired and working people earning an average income for Tehama County.

Mira Monte is owned by the Patterson Trust, with Donald E. Crain as the named trustee and Mr. Shan Patterson as the Trust caretaker. The Patterson Trust also owns two other water systems: Vista Grande Water System (VGW) and Las Flores Water Works (LFW). All three water utilities are operated by Mr. Shan Patterson. He is the manager, he also does the general maintenance and field work. Mrs. Patterson is the office employee and bookkeeping and they have a part-time employee who aids in meter reading. The majority of repair work is done by Mr. Patterson or is contracted out.

The three CPUC regulated utilities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). The shared expenses are allocated to each company on a percentage based on the number of customers.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to the customers on December 21, 2007. The Division received no letters protesting the increase. A public meeting was held on January 23, 2008 for all three utilities. No customer from Mira Monte attended the meeting.

DISCUSSION

The Division made an independent analysis of Mira Monte's operations. Appendix A shows Mira Monte's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2008. Mira Monte 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 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. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The Division, upon review of expense, determined that office salaries and management salaries were understated and recommends \$600 for office salaries and \$1,800 for management salaries.

Mira Monte has requested a rate of return of 13.4%. The Division's Utility Audit, Finance and Compliance Branch (UAF&CB) 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 and rate of margin methods. Both methods are to be used. Per Decision 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 revenue requirements 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. UAF&CB has recommended a rate of margin of 20% for Class D water utilities. A comparison of the two methods indicates that the 20% rate of margin produces a higher revenue requirement; therefore, the Division recommends the rate of margin method.

Mira Monte current rate structure consists of two schedules: Nos. 1, General Metered Service, and 2, Flat Rate Service. The rates proposed by the Water and Sewer Advisory Branch are shown in Appendix B. At the recommended rates the increase in revenue will be \$1,655 or 7.5% for test year 2008.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8 x 3/4-inch metered customer would increase from \$40.81 to \$43.87 or 7.5%. 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.

COMPLIANCE

Mira Monte has no outstanding compliance orders. The utility has been filing annual reports as required. However Mira Monte needs to update its Preliminary Statement, and Form 3, Bill for Service.

COMMENTS

This is an uncontested matter in which the resolution grant the relief requested. Accordingly, pursuant to PU Code 311(g) (2), the otherwise 30- day period for public review and comment is being waived.

June 26, 2008

FINDINGS

1. The Division's recommended summary of earnings (Appendix A) are 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. Mira Monte should be required to update its Preliminary Statement, and Form 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Mira Monte Water 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, respectively, and concurrently to cancel its presently effective Schedules Nos. 1, General Metered Service, and 2, Flat Rate Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Mira Monte Water Company is authorized to increase its annual revenues by \$1,655 or 7.5% for test year 2008.
3. Mira Monte Water Company is ordered to update its Preliminary Statement, and Form 3, Bill for Service.
4. 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 June 26, 2008; the following Commissioners voting favorably thereon:

_____/s/ PAUL CLANON
Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

APPENDIX A
MIRA MONTE COMPANY
SUMMARY OF EARNINGS
Test Year 2008

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenues</u>					
Unmetered Revenue	\$1,703	\$1,860	\$1,703	\$1,860	\$1,832
Metered Revenue	20,338	22,222	20,338	22,241	21,863
Total revenue	22,041	24,082	22,041	24,101	23,696
<u>Operating Expenses:</u>					
Purchased power	4,850	4,850	5,195	5,195	5,195
Other Volume Related	415	415	415	415	415
Employee labor	900	900	900	900	900
Materials	700	700	700	700	700
Contract work	3,116	3,116	3,116	3,116	3,116
Water testing	993	993	993	993	993
Transportation expenses	845	845	845	845	845
Other plant maintenance	550	550	550	550	550
Office salaries	0	0	600	600	600
Management	1500	1500	1,800	1,800	1,800
Office services & rentals	850	850	850	850	850
Office supplies & expenses	353	353	353	353	353
Professional services	150	150	150	150	150
Insurance	616	616	616	616	616
Regulatory expenses	309	309	309	309	309
General expenses	166	166	166	166	166
Total operating expenses	16,313	16,313	17,558	17,558	17,558
Depreciation expense	731	731	731	731	731
Taxes Other than Income	392	392	544	544	544
State taxes	800	800	800	800	800
Federal income taxes	571	691	361	670	609
Total deductions	18,807	18,927	19,994	20,303	20,242
Net Revenue	3,234	5,155	2,046	3,798	3,454
Average Plant	38,473	38,473	38,473	38,473	38,473
Aver. Acc. Dep.	0	0	15,536	15,536	15,536
Net Plant	38,473	38,473	22,937	22,937	22,937
Plus: Working Cash	0	0	1,463	1,463	1,463
Rate Base	38,473	38,473	24,401	24,401	24,401
Rate of Return	8.4%	13.4%	8.4%	15.6%	14.15%
Rate of Margin					20%

(END OF APPENDIX A)

APPENDIX B
Mira Monte Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Mira Monte Estates, a subdivision approximately five miles west of the City of Red Bluff, Tehama County.

RATES

Quantity Rate:		
All water, per 100 cu .ft.	\$ 1.03	(I)
Service Charge:	Per Meter	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 18.12	(I)
For 3/4-inch meter	27.18	
For 1-inch meter	45.30	
For 1-1/2-inch meter	90.60	
For 2-inch meter	144.96	(I)

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

SPECIAL CONDITIONS

1. 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.
2. A late charge will be imposed per schedule No. LC.
3. All bills are subject to the reimbursement fee set forth in Schedule UF.

APPENDIX B
Mira Monte Water Company

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate service.

TERRITORY

Mira Monte Estates, a subdivision approximately five miles west of the City of Red Bluff, Tehama County.

RATES

Per Service
Connection
Per Month

All flat rate service, per month	\$ 50.90	(I)
----------------------------------	----------	-----

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. The above residential flat rates apply to service connections not larger than one inch in diameter.
3. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.
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.
5. All bills are subject to the reimbursement fee set forth in Schedule UF.

(END OF APPENDIX B)

APPENDIX C
Mira Monte Water Company
Test Year 2008
COMPARISON OF RATES

METERED SERVICE

	Per Meter Per Month		
	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
Service Charge:			
For 5/8 x 3/4 - inch meter	\$16.81	\$18.12	7.8%
For 3/4 - inch meter	25.21	27.18	7.8%
For 1-inch meter	42.02	45.30	7.8%
For 1 1/2-inch meter	84.05	90.60	7.8%
For 2-inch meter	134.48	144.96	7.8%
Quantity Charge:			
All water, per 100 cu. ft.	\$ 0.96	\$1.03	7.3%

FLAT RATE SERVICE

All flat rate service, per month	\$ 47.30	\$ 50.90	7.6%
----------------------------------	----------	----------	------

Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4-inch is shown below at current rates and recommended rates for Test Year 2008.

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Increase</u>	<u>Amount of</u> <u>Increase</u>	<u>Percentage of</u> <u>Increase</u>
0	\$16.81	\$18.12	\$1.31	7.8%
10	26.41	28.42	2.01	7.6%
20	36.01	38.72	2.71	7.5%
25 (avg.)	40.81	43.87	3.06	7.5%
30	45.61	49.02	3.41	7.5%

(END OF APPENDIX C)

APPENDIX D
Mira Monte Water Company
Test Year 2008
ADOPTED QUANTITIES

Purchased Power
Pacific Gas & Electric Co.
Schedule A-1 Small General Service

Energy Cost	\$5,195
Total kWh	28,277
Average Unit Cost \$/kWh	\$.184

Property Tax	\$ 544
Management Salary	1,800
Employee Labor	900
Office salaries	600

Service Connections

5/8 x 3/4-inch meter	36
3/4-inch meter	4
Flat rate customers	<u>3</u>
Total	43

Meter water sales used to design rates	12,360 Ccf
--	------------

INCOME TAX CALCULATIONS
Test Year 2008

Operating Revenues	23,696
Operating Expenses	17,558
Depreciation	731
Taxes Other Than Income	544
Income Before Taxes	4,863
State Tax	800
Federal Tax	609

Resolution W-4693
Mira Monte Water/Draft AL/RSK/PTL/LEP/jlj

June 26, 2008

Net Income

3,454
=====

(END OF APPENDIX D)