

WATER/JB5/MRB/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION NO. W-4720  
November 6, 2008

RESOLUTION

(RES. W-4720), BIG BASIN SANITATION COMPANY, INC.  
(BBSC). ORDER AUTHORIZING A GENERAL RATE  
INCREASE PRODUCING ADDITIONAL ANNUAL REVENUES  
OF \$15,739 OR 75.2% IN 2008.

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SUMMARY

By Draft Advice Letter accepted on August 1, 2007, BBSC seeks to increase its rates to recover increases in operating costs and an adequate rate of margin. For test year 2008, this resolution grants an increase in gross annual revenues of \$15,739 or 75.2%. The increase will provide a 20% rate of margin on operating expenses plus pre-tax deductions of \$29,039.

BACKGROUND

BBSC is a sewer utility with 29 connections. BBSC 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 sewer rates by \$15,739 or 75.2% for test year 2008. At present rates, BBSC will have a deficit of \$8,155.

NOTICE AND PROTEST

On September 26, 2007, a Notice of Proposed Rate Increase was mailed to all customers announcing BBSC's request to increase water rates by 91.16%, and announcing a public meeting for November 7, 2007. Two customers attended the public meeting held on November 7. Staff explained the purpose of the meeting, and Jim Moore of BBSC explained the need for the increase. Customers said they would prefer smaller increases at more frequent intervals. No customers requested copies of the proposed Resolution. There were no complaints about sewer service.

DISCUSSION

BBSC provides domestic sewage service to 28 residential flat rate connections and a fire station. The service territory is in the Big Basin Woods Subdivision, located

approximately 3 miles east of Boulder Creek on Big Basin Highway, in Santa Cruz County. BBSC's present rates became effective on October 24, 2007, by a Consumer Price Index (CPI) increase. Their last General Rate Increase was granted on June 11, 1997.

The Water and Sewer Advisory Branch (Branch) made an independent analysis of BBSC's summary of earnings. Appendix A shows BBSC's and Branch's estimates of the summary of earnings at present, requested, and recommended rates for Test Year 2008. The final column shows the revenues and expenses adopted by the Commission.

Under guidelines established in Decision 92-03-093 for Class C and D water utilities, Commission staff must calculate net revenues by both the rate base/rate of return method and the operating ratio (rate of margin) method. Although the guidelines are related to water utilities, the Branch believes they are appropriate for sewer utilities. In this case the operating ratio method produces the higher revenue requirement. An operating ratio of 20%, which the Branch finds reasonable for a sewer utility, would warrant a rate increase of approximately 75.2%.

BBSC estimated that 2008 revenues at present rates would be \$21,576. Branch's estimate is \$20,932. The Branch estimate of revenues at proposed rates is \$724 higher due to higher estimates of purchased power and Federal and State income taxes. BBSC estimated purchased power expenses of \$1600. Branch's estimate of \$1,756 is based on the most recent rates that PG&E charges, for the same kilowatt hours. Branch accepts BBSC's estimates of other expenses. Because BBSC shares almost all facilities and personnel with Big Basin Water Company, Inc., the Commission's Utility Audit, Compliance and Finance Branch (UAC&FB) of the Division of Water and Audits has directed BBSC to estimate expenses at 6% of the total expenses of Big Basin Water and Big Basin Sanitation companies. BBSC estimates \$1,287 at their proposed rates. Branch estimates \$1,825 to include higher State and Federal taxes.

BBSC's rate base for 2008 is \$6,063. The wastewater plant is fully depreciated with the exception of a pump purchased in 2004. BBSC did not request a return on rate base. Effective March 10, 2008, UAC&FB recommends a rate of return on rate base between 12.75% to 13.75% for 100%-equity-financed Class D water companies [those with less than 500 customers] and for sewer companies. BBSC is a small sewer company with 29 active customers. The allowable return on a rate base of \$6,063 would be less than \$1,000.

UAC&FB recommends a rate of margin of 20% for sewer companies. The rate of margin is a percentage of the sum of operating expenses plus taxes and depreciation. A 20% rate of margin would provide \$5,807 net revenue after expenses and deductions.

As required by the Commission in Resolution (Res.) W-4524 of March 17, 2005, both Rate of Return on Rate Base and Rate of Margin must be calculated. Decision 92-03-093 of March 31, 1992 requires that Branch recommend the option which gives the water company the greater return. Rate of Margin has been selected because it will provide the greater revenue to the utility.

### **REVISION OF USER FEE**

BBSC also requests permission to update its tariff Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee, pursuant to Res. M-4819, dated June 7, 2007, which ordered an increase in the CPUC reimbursement fee for water and sewer utilities from 1.4% to 1.5%. In accordance with Res. M-4819, the revised tariff schedule should be made effective July 1, 2007.

### **COMPLIANCE**

BBSC's tariff book is incomplete. It lacks Rule 1, Definitions; Rule 2, Description of Service; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 6, Establishment and Re-Establishment of Credit; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 12, Information Available to Public; Rule 13, Temporary Service; Rule 14, Continuity of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 17, Standards for Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; Rule 20, Limitation on Wastes Discharged into the Utility's Sewer System; Rule 21, Commercial, Institutional and Industrial Wastes; Form 1, Application for Sewer Service; Form 2, Customer's Deposit Receipt; and Form 3, Bill for Service.

### **COMMENTS**

A draft of this Resolution was sent to the utility for review and comment. No customers requested copies of the Draft Resolution. This is an uncontested matter. Accordingly, pursuant to PU Code 311(g) (3), the otherwise 30- day period for public review and comment is being waived.

### **FINDINGS AND CONCLUSIONS**

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

3. The tariff schedules proposed by the Branch (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.
5. The utility's tariff book lacks Rule 1, Definitions; Rule 2, Description of Service; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 6, Establishment and Re-Establishment of Credit; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 12, Information Available to Public; Rule 13, Temporary Service; Rule 14, Continuity of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 17, Standards for Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; Rule 20, Limitation on Wastes Discharged into the Utility's Sewer System; Rule 21, Commercial, Institutional and Industrial Wastes; Form 1, Application for Sewer Service; Form 2, Customer's Deposit Receipt; and Form 3, Bill for Service. These rules and forms are reasonable and should be adopted.

**IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code §454 for Big Basin Sanitation Company to file an advice letter incorporating the Summary of Earnings and the revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate schedules: 1, General Residential Service, and UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.
2. The effective date of Schedule 1 shall be five days after the date of its filing, and the effective date of Schedule UF shall be July 1, 2007.
3. The utility shall file an advice letter adopting Rule 1, Definitions; Rule 2, Description of Service; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 6, Establishment and Re-Establishment of Credit; Rule 7, Deposits; Rule 8, Notices; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 12, Information Available to Public; Rule 13, Temporary Service; Rule 14, Continuity of Service; Rule 15, Main Extensions; Rule 16, Service Connections and Customer's Facilities; Rule 17, Standards for Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Sewer Service; Rule 20, Limitation on Wastes Discharged into the Utility's Sewer System; Rule 21, Commercial, Institutional and Industrial Wastes; Form 1, Application for Sewer Service; Form 2, Customer's Deposit Receipt; 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 November 6, 2008; 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**  
**BIG BASIN SANITATION COMPANY, INC.**

**SUMMARY OF EARNINGS**

**Test Year 2008**

	Big Basin Present <u>Rates</u>	Big Basin Proposed <u>Rates</u>	Staff Present <u>Rates</u>	Staff Proposed <u>Rates</u>	Adopted <u>Rates</u>
<b><u>Operating Revenue</u></b>					
Unmetered Service Revenue	21,576	35,947	20,932	36,671	36,671
Metered Servicer Revenue	0	0	0	0	0
Other Service Revenue	0	0	0	0	0
<b>Total Service Revenue</b>	<b>21,576</b>	<b>35,947</b>	<b>20,932</b>	<b>36,671</b>	<b>36,671</b>
<b><u>Operating Expenses</u></b>					
Purchased Water	0	0	0	0	0
Power	1,600	1,600	1,756	1,756	1,756
Other Volume Related Expenses	2,370	2,370	2,370	2,370	2,370
Employee Labor	3,878	3,878	3,878	3,878	3,878
Materials	0	0	0	0	0
Contract Work	2,100	2,100	2,100	2,100	2,100
Transportation Expense	1,200	1,200	1,200	1,200	1,200
Other Plant Maintenance	3,600	3,600	3,600	3,600	3,600
Office Salaries	2,050	2,050	2,050	2,050	2,050
Management Salaries	4,950	4,950	4,950	4,950	4,950
Employee Pensions and Benefits	2,100	2,100	2,100	2,100	2,100
Uncollectable Expense	0	0	0	0	0
Office Services and Rentals	160	160	160	160	160
Office Supplies Expense	500	500	500	500	500
Professional Services	100	100	100	100	100
Insurance	962	962	962	962	962
Regulatory Commission Expense	0	0	0	0	0
General Expense	1,900	1,900	1,900	1,900	1,900
<b>Total Operating Expenses</b>	<b>27,470</b>	<b>27,470</b>	<b>27,626</b>	<b>27,626</b>	<b>27,626</b>
Depreciation Expense	213	213	213	213	213
Taxes Other Than Income Taxes	1,200	1,200	1,200	1,200	1,200
Income Taxes	48	1,287	48	1,825	1,825
<b>Total Deductions</b>	<b>28,931</b>	<b>30,170</b>	<b>29,087</b>	<b>30,864</b>	<b>30,864</b>
<b>Net Revenue</b>	<b>-7,355</b>	<b>5,777</b>	<b>-8,155</b>	<b>5,807</b>	<b>5,807</b>
<b>Test Year 2008 Rate Base</b>					
Average Plant					86,915
Avg. Accumulated Depreciation					80,852
Net Plant					6,063
Add: Materials					1,000
Working Cash					0
Less: Contributions					0
Advances					0
<b>Rate Base</b>					<b>7,063</b>
Rate Of Return					13.25%
Amount Of Return					936
<b>Rate of Margin</b>					<b>5,807</b>
Percent					<b>20%</b>

**APPENDIX B**  
**Page 1**

**BIG BASIN SANITATION COMPANY, INC.**

**SCHEDULE NO. 1**

**GENERAL RESIDENTIAL SERVICE**

**APPLICABILITY**

Applicable to residential sewer service.

**TERRITORY**

The area known as Big Basin Woods Subdivision, Tracts 410 and 450, located approximately 3 miles east of Boulder Creek on Big Basin Highway, in Santa Cruz County.

**RATES**

**Per Month**

All sewer connections

\$105.38

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (N)

**APPENDIX B**  
**Page 2**

**BIG BASIN SANITATION COMPANY, INC.**

**SCHEDULE NO. UF**

**SURCHARGE TO FUND  
PUBLIC UTILITIES COMMISSION  
REIMBURSEMENT FEE**

**APPLICABILITY**

This surcharge applies to all water and sewer bills rendered under all tariff schedules authorized by the Commission, with the exception of resale rate schedules where the customer is a public utility.

**TERRITORY**

This schedule is applicable within the entire territory served by the utility.

**RATES**

A 1.5% surcharge shall be added to all customer bills. (I)

In 1982 the Legislature established the Public Utilities Commission Reimbursement Fee to be paid by utilities to fund their regulation by the Commission, Public Utilities (PU) Code Sections 401-443. The surcharge to recover the cost of that fee is ordered by the Commission under authority granted by the PU Code Section 433.



**APPENDIX C**

**BIG BASIN SANITATION COMPANY, INC.**

**COMPARISON OF RATES**

	<u>Previous Rate</u>	<u>New Rate</u>	<u>Percent Increase</u>
Flat Rates	\$60.15	\$105.38	75.2%

**APPENDIX D**

**BIG BASIN SANITATION COMPANY, INC.**

**ADOPTED QUANTITIES**

**Test Year 2008**

Property Tax	\$402
Management Salary	\$4,950
Purchased Power (Electric)	
Vendor	PG&E
Schedule	A-6 Small General Time-of-Use
Composite Rate	\$0.1527/kWh
Total Power Consumption in kWh	11,499 kWh
Total Purchased Power	\$1,756
Service Connections	29
Income Tax Calculations	
Operating Revenue	\$36,671
Operating Expenses	27,626
Depreciation	213
Other Than Income Taxes	1,200
Income before State Tax	7,632
State Income Tax	800
Income before FIT	6,832
Federal Income Tax	1,025
Total Income Taxes	1,825
Rate Base Calculations	
Average Plant	\$86,915
Avg. Accumulated Depreciation	80,852
Net Plant	6,063
Add: Materials	0
Working Cash	0
Less: Contributions	0
Advances	<u>0</u>
<b><u>Rate Base</u></b>	<b>\$ 6,063</b>