

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4603

May 25, 2006

**R E S O L U T I O N**

**(RES. W-4603), COTTAGE SPRINGS WATER COMPANY (COTTAGE SPRINGS). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$1,846 OR 74.5% IN 2006.**

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**SUMMARY**

By a Proposal Letter, filed on January 19, 2006 and supplement filed on March 10, 2006, Cottage Springs seeks an increase of \$1,246 or 50.3%, in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2006, this resolution grants an increase in gross annual revenues of \$1,846 or 74.5%, which is estimated to provide a rate of margin of 25%. This resolution also establishes a process for an expedited General Rate Case (GRC) for qualifying Class C and D water utilities.

**BACKGROUND**

Cottage Springs serves approximately 16 flat rate customers in its service area in and around the Cottage Springs Subdivision, approximately 35 miles east of Angels Camp, Calaveras County.

The present rates became effective on November 18, 1999 as a result of a Consumer Price Index - Urban (CPI-U) increase pursuant to D.92-03-093, which produced an increase of \$39 or 1.6% in additional annual revenue. The last general rate increase was granted on March 7, 1997, pursuant to Res. W-4031, which authorized a gross revenue increase of \$1,570 or 154% additional annual revenue.

Cottage Springs is owned and operated by Beatrice Miller. Cottage Springs serves 16 flat rate customers in the Cottage Springs Subdivision, in Calaveras County. There are six additional lots located on Beatrice Drive which can be served water, but are vacant at the current time. Cottage Springs' service area covers roughly one street and is less

than one square mile of territory. The majority of Cottage Springs' customers are seasonal, with only a few full-time residents.

Cottage Springs' water supply is taken from two wells. Water is pumped approximately 500 feet from the main well (located between Highway 4 and Beatrice Drive) into a 20,000 gallon redwood storage tank. The water is gravity fed to the customers. Water is also occasionally pumped approximately 2,000 feet from the secondary well (located next to the Cottage Springs, Inc. ski resort) to the storage tank. The system maintains a back-up power supply at the ski area.

Approximately 66% of Cottage Springs' mains are four-inch welded steel (based upon a total of 2,752 feet of mains reported in Cottage Springs' 2004 annual report). The size and types are as follows:

<u>Main Type</u>	<u>Feet</u>
4-inch Welded Steel	1,820
PVC 40	552
6-inch Cement-asbestos	<u>380</u>
<b>TOTAL</b>	<b>2,752</b>

The majority of the system was placed into service in the late 1950's, about 50 years ago. Because of the age of the system, Cottage Springs' plant is fully depreciated.

### **NOTICE**

A notice of the proposed general rate increase was mailed to each customer on March 17, 2006. The Division did not receive any letters of complaint regarding the proposed rate increase.

### **PROTESTS**

There were no protests to Cottage Springs' request.

### **DISCUSSION**

The Water Division (Division) made an independent analysis of Cottage Springs' summary of earnings. Appendix A shows Cottage Springs' estimates as well as the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix B includes the proposed tariff sheets, Appendix C is the comparison of rates, and Appendix D is the adopted quantities and tax calculations.

Because Cottage Springs' plant is fully depreciated, the resulting revenues based upon a current rate of return of 13.75% would be zero. Instead, the revenues have been

calculated utilizing Rate of Margin method, in accordance with D.92-03-093. Based on the February 27, 2006 memorandum to the Commission, the Division is recommending a Rate of Margin of 25% to be utilized in determining the revenue requirement.

### EXPEDITED GRC PROCESS

The 2005 Commission Water Action Plan identifies several policy objectives including a regulatory decision making process that will benefit both utilities and ratepayers. In the past, the Commission has considered several opportunities to streamline the existing regulatory process. In D.92-03-093, the Commission determined that Class B utilities should be eligible for informal General Rate Cases, in addition to Class C and D utilities. Informal General Rate Cases by Advice Letter do not involve hearings or a formal Commission decision, but the CPUC staff from the Water Division still performs a thorough investigation and presents recommendations to the Commission. Rates are approved by a Commission resolution.

Currently, to lighten the burden for small water companies and minimize rate case expenses recovered in rates, the Commission allows for small water companies to increase periodically using an inflation factor (CPI-U) in lieu of a general rate case.

To further expedite the process, the Commission will consider standardized and streamlined regulatory review for small water utilities (Class C & D) in lieu of a typical rate case. Further, the Commission will consider on a case-by-case basis, changes to the standard rate case plan that have the effect of streamlining the process and allow for the proceeding to move forward in a more expeditious manner.

Should a utility meet the "Checklist" criteria (described below), the streamlined rate case procedure will forgo the following:

- 1) Public Meeting
- 2) Field Investigation
- 3) Report on a Results of Operations (Staff Report)

In order for a utility to qualify for an expedited GRC, the Water Division will verify that required conditions are satisfied in checklist below:

#### Checklist

- Utility has provided adequate service since last GRC or filing;
- Utility has a reliable water supply;

- Utility provides safe drinking water supply;
- A statement, letter, or email from the Department of Health Services (DHS) or local county health department indicating the water system is in compliance with all applicable standards;
- Utility has no CPUC, DHS/County Health compliance orders;
- Utility's infrastructure is in good condition based on DHS or County Environmental Health Department's Report or email;
- No significant customer complaints;
- Utility has filed Annual Reports for the three years prior to the GRC filing;
- Annual compounded CPI-U increases, since the last authorized rate increase, are in line with requested increase;
- Average rates are reasonable; and
- Utility has no Safe Drinking Water Bond Act Loan (SDWBA) or the utility has met payment obligations under SDWBA Loan Agreement.

Depending on how well the utility meets the conditions outlined on the standard practice checklist, the public meeting, field investigation, and staff report may be forgone and the Division will draft a resolution for Commission consideration.

This resolution sets the initial guidelines for future expedited GRCs. The Division will establish a Standard Practice manual which includes the criteria above and instructions to complete the assessment of the utilities filing based on the streamline procedures described in the checklist.

#### EXPEDITED GRC PROCESS FOR Cottage Springs

Cottage Springs meets the criteria included in the checklist for the expedited GRC process with the exception of one. Both Cottage Springs's requested increase and staff recommendation exceed the CPI-U compounded increase of 24.2% since the last GRC. However, since the recommended flat rate for a single-family residence of \$270.19 annually or \$22.52 monthly is still below the average rate for similar utilities, staff did not hold the public meeting, made no field investigation and didn't prepare a staff report. Division believes that recommended rates are reasonable and should be adopted.

The main reason for the difference between Cottage Springs' requested increase of \$1,246 and staff's recommended increase of \$1,846 is because Cottage Springs neglected to include calculations for both state and federal taxes in their filing. In addition, staff made the following adjustments to expenses:

Regulatory Commission Expense

Cottage Springs' requested \$400 for Regulatory Commission Expense. Staff amortized the \$400 over a three-year period in conformance with the general rate case cycle.

Water Testing

Cottage Springs did not request any expense recovery for water testing. However, staff included \$215 for water testing based on a three-year average recorded in Cottage Springs' annual reports.

Tariff Rates Adjustment

In November of 1999, Sue Wong, staff auditor, visited the utility and assisted Ms. Beatrice Miller, the owner of the water company, in calculating the CPI-U increase pursuant to D.92-03-093, which produced an increase of \$39 or 1.6% in additional annual revenue. Ms. Wong prepared the tariff sheet for Cottage Springs and Ms. Miller put the rates into effect without knowing that an advice letter should be filed. However, the customers were informed of the increase and Ms. Miller maintained the unstamped tariff sheets in her office files since 1999. Due to this misunderstanding, staff adjusted all tariff rates by 1.6% to normalize rates to 1999 levels.

**COMPLIANCE**

The utility has been filing annual reports as required. However, Cottage Springs needs to update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Rule No 3, Application for Service; Rule No. 5, Special information Requirement on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Form 2, Customer's Deposit Receipt; and Form 3, Bill for Service.

**FINDINGS**

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used in the preparation of this report are reasonable and should be adopted.
4. Cottage Springs Water Company should update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Rule No 3, Application for Service; Rule No. 5, Special information Requirement on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Form 2, Customer's Deposit Receipt; and Form 3, Bill for Service.
5. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g) (3).

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Cottage Springs 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 rate Schedules Nos. 1A, Annual Metered Rate Service, and 2A, Annual Flat Rate Service. The effective date of the revised schedules shall be five days after the date of the filing.
2. Cottage Springs Water Company is authorized to increase its annual revenues by \$1,846 or 74.5%, based on reasonable rates for 2006.
3. Cottage Springs Water Company shall update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Rule No 3, Application for Service; Rule No. 5, Special information Requirement on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Form 2, Customer's Deposit Receipt; and Form 3, Bill for Service.
4. The Water Division shall establish a Standard Practice manual including the criteria and instructions to complete the assessment of the utility's filing based on the standard procedures described in the checklist.

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 May 25, 2006; the following Commissioners voting favorably thereon:

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/s/ STEVE LARSON

STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
President

GEOFFREY F. BROWN

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG  
Commissioners

Appendix A

Cottage Springs Water Company

SUMMARY OF EARNINGS  
 Test Year 2006

Item	Utility Present Rates	Utility Estimated Requested Rates	Branch Present Rates	Branch Estimated Requested Rates	Recommended Rates
<b><u>OPERATING REVENUES</u></b>					
Flat Rates	\$2,477	\$3,698	\$2,477	\$4,323	\$4,323
Metered Rates	\$0	\$0	\$0	\$0	\$0
Other Water Revenue	\$0	\$25	\$0	\$0	\$0
Total Revenue	\$2,477	\$3,723	\$2,477	\$4,323	\$4,323
<b><u>OPERATING EXPENSES</u></b>					
Purchased Power	\$500	\$500	\$500	\$500	\$500
Other Volume Related Expenses	\$0	\$0	\$0	\$0	\$0
Employee Labor	\$0	\$0	\$0	\$0	\$0
Materials	\$500	\$500	\$500	\$500	\$500
Contract Work (Excl Water Testing)	\$200	\$200	\$200	\$200	\$200
Water Testing	\$0	\$0	\$215	\$215	\$215
Transportation	\$0	\$0	\$0	\$0	\$0
Other Plant Maintenance	\$300	\$300	\$300	\$300	\$300
Office Salaries	\$0	\$0	\$0	\$0	\$0
Management Salaries	\$0	\$0	\$0	\$0	\$0
Employee Benefits	\$0	\$0	\$0	\$0	\$0
Uncollectibles	\$0	\$0	\$0	\$0	\$0
Office Services & Rental	\$0	\$0	\$0	\$0	\$0
Office Supplies and Exp	\$0	\$0	\$0	\$0	\$0
Professional Services	\$450	\$450	\$415	\$415	\$415
Insurance	\$0	\$0	\$0	\$0	\$0
Regulatory Comm Exp	\$400	\$400	\$133	\$133	\$133
General Expenses	\$0	\$0	\$0	\$0	\$0
Subtotal	\$2,358	\$2,358	\$2,263	\$2,263	\$2,263
Depreciation Expense	\$0	\$0	\$0	\$0	\$0
Taxes other than income	\$600	\$600	\$600	\$600	\$600
State Income Tax	\$0	\$0	\$800	\$800	\$800
Federal Income Tax	\$0	\$0	\$95	\$95	\$95
<b><u>Total Deductions</u></b>	\$2,958	\$2,958	\$3,758	\$3,758	\$3,758
<b><u>NET REVENUE</u></b>	(\$481)	\$765	(\$1,281)	\$565	\$565
<b><u>Rate Base</u></b>	\$0	\$0	\$0	\$0	\$0
<b><u>RATE OF MARGIN (25%)</u></b>	(20%)	32%	(57%)	25%	25%



APPENDIX B-1

Schedule No. 1A

ANNUAL METERED RATE SERVICE  
Cottage Springs Water Company

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Cottage Springs Subdivision No. 3 and vicinity, located adjacent to State Highway 4 approximately 35 miles east of the community of Angels Camp, Calaveras County.

RATES

	Per Meter Per Month	
Quantity Rate:		
All water, per 100 cu. ft.	\$1.06	(N)
		I
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 8.86	
For 3/4-inch meter	\$13.30	
For 1-inch meter	\$22.16	
For 1-1/2-inch meter	\$44.32	
For 2-inch meter	\$70.92	
		(N)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bi-monthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. A non-permanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.
2. The opening bill for the metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the initial date of initial service, no refund of the initial annual charges shall be due to the customer.
3. All bills are subject to reimbursement fee set forth in Schedule No. UF.
4. A late charge will be imposed per Schedule No. LC. (N)

**APPENDIX B-2**

Schedule No. 2A

ANNUAL FLAT RATE SERVICE  
Cottage Springs Water Company

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Cottage Springs Subdivision No. 3 and vicinity, located adjacent to State Highway 4 approximately 35 miles east of the community of Angels Camp, Calaveras County.

RATES

	<u>Per Service Connection</u> <u>Per Year</u>		
For a single-family residential unit, including premises	\$270.19	(I)	(N)
For each additional single-family residential unit on the same premises and served from the same service connection	\$202.11	(I)	(N)

SPECIAL CONDITIONS

1. The above flat rates apply to service connection not larger than one-inch in diameter.
2. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.
3. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the initial date of initial service, no refund of the initial annual charges shall be due to the customer.
4. All bills are subject to a reimbursement fee set forth in Schedule No. UF.
5. A late charge will be imposed per Schedule No. LC (N)

APPENDIX C

Cottage Springs WATER COMPANY

COMPARISON OF RATES  
TEST YEAR 2006

1. Metered Rates

There are no existing metered rates to compare to.

2. Flat Rates

<u>Tariff Description</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Present</u> *	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Single-family residence with premises	\$154.84	\$270.19	\$115.35	74.5%
Each additional single-family residence on the same premises and served from the same connection	\$115.82	\$202.11	\$86.29	74.5%

\* In November of 1999, staff auditor, Ms. Sue Wong, staff auditor, visited the utility and assisted Ms. Beatrice Miller, the owner of the water company, in calculating the CPI-U increase pursuant to D.92-03-093, which produced an increase of \$39 or 1.6% in additional annual revenue.

Ms. Wong prepared the tariff sheet for Cottage Springs and Ms. Miller put the rates into effect without knowing that an advice letter should be filed. However, the customers were informed of the increase and Ms. Miller maintained the tariff sheets in her office files since 1999. Due to this misunderstanding, staff adjusted all tariff rates by 1.6% to normalize rates to 1999 levels due to this misunderstanding.

APPENDIX D

Cottage Springs WATER COMPANY

ADOPTED QUANTITIES  
 TEST YEAR 2006

Expenses:

1. Purchased power (PG&E)	Effective January 1, 2005	
kWh Used		3,287
Annual Power Cost		\$529
Composite Energy Cost (\$/kWh)		\$0.161
2. DHS Testing Costs		
DHS Fees Included		\$215
3. Number of Service Connections:		
	Full Rate Connections	16
	Connections with Second Dwelling Charge	0
	Metered Connections	0
4. Property Tax		\$600

5. Adopted tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$4,323	\$4,323
2.	Expenses	\$2,263	\$2,263
3.	Depreciation	\$0	\$0
4.	Taxes other than In	\$600	\$600
4a.	Interest	\$25	\$25
5.	Taxable Income for State Tax	\$1,435	
6.	State Tax	\$800	
	Taxable Income for		
7.	FIT		\$635
8.	Federal Income Tax		\$95
9.	Total Income Tax		\$895
	California Corporate Franchise Rate-Minimum		\$800
	Federal Income Tax Rate - Only Lowest Tier Applies		15%

6. 2005 Plant additions included in rate base: -