

WATER/RSK/SNR:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
WATER & SEWER ADVISORY BRANCH

RESOLUTION W-4680
APRIL 10, 2008

R E S O L U T I O N

(RES. W-4680), ROLLING GREEN UTILITIES, INC. (RGU), SEWER DIVISION. ORDER AUTHORIZING A GENERAL RATE INCREASE IN SEWER RATES OF \$26,150 OR 32.16% FOR TEST YEAR 2006, PRODUCING A GROSS REVENUE OF \$107,462.

SUMMARY

By Draft Advice Letter, accepted on August 28, 2006, RGU requested an increase in sewer rates producing an increase in annual revenue of \$41,403 or 49.25% for test year 2006. The increase is requested for increased operating expenses, and to provide an adequate rate of return on its capital investment. This resolution grants a general rate increase in sewer rates of \$26,150 or 32.16% for test year 2006 producing a gross annual revenue of \$107,462.

BACKGROUND

RGU is a class D sewer utility and serves approximately 280 flat rate residential customers in the Rolling Green Terrace Subdivision near Big Pine, Inyo County. RGU requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for sewer service to produce additional revenues of \$41,403 or 49.25% in 2006. RGU's request shows 2006 gross revenues of \$84,072 at present rates increasing to \$125,475 at proposed rates to produce a rate of margin of 25.0%.

RGU's present rates became effective on July 26, 2006, upon filing of RGU for a CPI (Consumer Price Index) increase pursuant to Decision 92-03-093. RGU's last general rate increase in the amount of \$15,447 or 24.78% was authorized for test year 2003 at a 13.5% rate of return on rate base.

DISCUSSION

The Division of Water and Audits (Division) made an independent analysis of RGU's summary of earnings and issued its report in September 2007. Appendix A shows RGU's estimates as well as the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between RGU's and the Division's estimates in operating expenses and rate base. RGU was informed of the Division's differing views of operating expenses and rate base.

RGU sent a letter dated October 8, 2007 to the Branch Chief of the Water and Sewer Advisory Branch of the Division appealing its dispute with the staff's position in accordance with the procedures set forth in paragraph 19 of the Standard Practice U-9-SM, which states in part "If the staff and the utility cannot resolve their differences, the utility will send a letter to the Branch Chief explaining its desires and justifying its position. The Branch Chief will respond to that letter within 14 days. If the utility doesn't agree with the Branch Chief's response, it may appeal to the Division Director." This informal appeal procedure was established by the Commission Decision (D.)92-03-093 dated March 31, 1992.

By letter dated October 22, 2007, the Branch Chief responded to RGU's appeal. Not satisfied, RGU appealed to the Division Director by letter dated November 19, 2007. RGU's comments were given due consideration and are incorporated in this resolution as appropriate.

RGU requested a rate of margin of 25% for test year 2006. The Commission's Utility Audit, Finance, and Compliance Branch recommends rates of return on rate base between 12.85% and 13.85% or a 20% rate on margin for Class D water utilities. Two methods are available for Division to utilize in the rate-making process: (1) Rate of Return (ROR) and (2) Rate of Margin (ROM). In Resolution (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 and taxes other than income, 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.

RGU is not a water utility, it is a sewer utility. The Commission Res. W-4524 mentioned above does not include ROM for sewer utilities. However, the Commission granted ROM in setting sewer rates by Decision (D.) 02-06-005 dated June 6, 2002 in Cypress

Ridge's CPCN Application request (A.00-08-056). Also, since the rate base of RGU is very small and applying a rate of return on the rate base would not produce enough revenue to take care of unforeseen expenses, the Division believes that the ROM method should be considered for RGU. A comparison of the two methods, ROR and ROM, indicates that the rate of margin method produces a higher return for RGU; therefore, the Division recommends the rate of margin method. The Division recommended ROM for RGU is 20%. We find that small sewer utilities share a similar risk profile as small water utilities. Therefore it is reasonable to grant ROM to sewer utilities as well.

RGU's current rate structure consists of Schedule No. 1, General Residential Service. The rates proposed by the Division are shown in Appendix B.

RGU files Annual Reports regularly. Res. W-4448, dated January 8, 2004, ordered RGU to update several rules and forms in its filed tariffs. Compliance with this order is still outstanding. RGU should file the updated rules and forms at the time of filing the revised rate schedule reflecting rate increases authorized in this resolution.

NOTICE AND PROTESTS

A notice of the proposed rate increase was published on September 30, 2006 in the Inyo Register, a news paper of general circulation. No protests have been received.

A public meeting was held on October 20, 2006. No customers attended the meeting. The Commission's representative was available to explain Commission rate-setting procedures. RGU's representative was also present to explain the need for the rate increase.

COMPLIANCE

RGU needs to update its Title Page; Schedule LC, Late Payment Charge; Preliminary Statement; 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 Reestablishment 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, Meters, and Customer's Facilities; Rule 17, Measurement of Service; Rule 18, Meter Tests and Adjustment of Bills for Meter Error; 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; update Form 1, Application for Sewer Service; Form 2, Customer's Deposit Receipt; and Form 3, Bill for Service.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this Resolution was neither waived nor reduced. Accordingly, this draft Resolution was mailed to all parties for comments. No comments were received.

FINDINGS AND CONCLUSIONS

1. The summary of earnings (Appendix A) developed by the Division 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 C) used in the preparation of this report are reasonable and should be adopted.
4. Small sewer utilities share a similar risk profile as small water utilities.
5. It is reasonable to allow small sewer utilities to determine revenue requirement utilizing the rate of margin method.
6. RGU should be ordered to update its schedule LC, Late Payment Charge, Preliminary Statement, 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 Reestablishment 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, Meters, and Customer's Facilities; Rule 17, Measurement of Service; Rule 18, Meter Tests and Adjustment of Bills for Meter Error; 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; update Form 1,

Application for Sewer Service; Form 2, Customer's Deposit Receipt; and Form 3, Bill for Service.

7. RGU should be ordered to file the updated schedule, preliminary statement, rules and forms mentioned in the Findings and Conclusions No. 4 above at the time of its filing the revised rate schedule reflecting increased rates authorized in this resolution.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under the Public Utilities Code Section 454 for Rolling Green Utilities, Inc., Sewer Division to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its present effective rate Schedule No. 1, General Residential Service.
2. Rolling Green Utilities, Inc., Sewer Division shall update its Schedule LC, Late Payment Charge, Preliminary Statement, 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, Meters, and Customer's Facilities; Rule 17, Measurement of Service; Rule 18, Meter Tests and Adjustment of Bills for Meter Error; 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; update Form 1, Application for Sewer Service; Form 2, Customer's Deposit Receipt; Form 3, Bill for Service.
3. Rolling Green Utilities, Inc., Sewer Division shall file its updated Schedule LC, Preliminary Statement, and rules and forms mentioned in Ordering Paragraph 2 above along with the revised rate Schedule 1 mentioned in Ordering Paragraph 1.
4. The effective date of the revised rate Schedule 1, updated Schedule LC, Preliminary Statement, and the updated rules and forms shall be concurrent and after five days of filing.

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 April 10, 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
 ROLLING GREEN UTILITIES - SEWER DIVISION
 2006 SUMMARY OF EARNINGS

	Utility Estimate		Staff Estimate		STAFF ROM 20%
	Present Rates	Requested Rates ROM 25%	Present Rates	Requested Rates	Recommended Rates
Revenue					
Sewer Revenue	81,091	125,475	81,312	125,475	107,462
Other sewer revenue	2,981				
Total Revenue	84,072	125,475	81,312	125,475	107,462
Expenses					
Power	3,000	3,000			
Employee Labor	4,500	4,500	4,500	4,500	4,500
Materials Expense	6,200	6,200	6,200	6,200	6,200
Contract Work	808	808	500	500	500
Laboratory costs			4,000	4,000	4,000
Transportation Expense	3,592	3,592	3,592	3,592	3,592
Other Plant Maintenance Expenses	5,800	5,800	5,800	5,800	5,800
Office Salaries	5,000	5,000	5,000	5,000	5,000
Management Salaries	22,000	22,000	22,000	22,000	22,000
Employee Pension and Benefits	7,940	7,940	5,030	5,030	5,030
Office Service and Rentals	3,282	3,282	3,485	3,485	3,485
Uncollectibles	841	841	414	414	414
Office Supplies and Expenses	1,822	1,822	615	615	615
Professional Services	4,656	4,656	4,187	4,187	4,187
Insurance Expense	1,796	1,796	4,796	4,796	4,796
Regulatory Commission Expenses	3,000	3,000	3,000	3,000	3,000
General Expenses NO INTEREST	10,804	10,804	3,150	3,150	3,150
Total Operating Expenses	85,041	85,041	76,269	76,269	76,269
Depreciation	4,337	4,337	4,337	4,337	4,337
Payroll Taxes			2,542	2,542	2,542
Property Taxes			713	713	713
Franchise Fee			1,555	1,555	1,555
Taxes other than income	5,374	5,374	4,810	4,810	4,810
State Income Tax			800	3,541	1,949
Federal Income Taxes			0	5,478	3,014
Total income taxes	1,965	7,035	800	9,019	4,963
Total Deductions	96,717	101,787	86,216	94,435	90,379
Net Revenue (loss)	(9,455)	23,688	(4,904)	31,040	
Amount of Margin		23,688			17,083
Value for Rate of Margin Calc.					85,416
RATEBASE					
Average Plant	216,017	216,017	189,317	189,317	189,317
Average Depr. Reserve	163,491	163,491	163,491	163,491	163,491
Net Plant	52,526	52,526	25,826	25,826	25,826
Less: Contributions/Advances	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Plus: Material & Supplies	1,050	1,050	1,050	1,050	1,050
Rate Base	53,576	53,576	26,876	26,876	26,876
ROR = Net Rev/Rate Base	17.65%	44.21%	8.24%	115.41%	
Rate of Margin		25.00%			20.00%

APPENDIX B

**ROLLING GREEN UTILITIES INC.
SEWER DIVISION**

Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to all general residential sewer service.

TERRITORY

Rolling Green Terrace Subdivision (Tracts 1, 2, 3, and 4) near the town of Big Pine, Inyo County.

RATES

Single Family Residence	\$31.98	(I)
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SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX C

**ROLLING GREEN UTILITIES, INC.
SEWER DIVISION**

1.	Ad Valorem Taxes:	
	Total Property Tax:	\$713
2.	Service Connections:	280
3.	Payroll:	
	Labor	\$4,500
	Office	\$5,000
	Management	\$22,000

Adopted Taxes:
Test Year 2006

1.	Operation Revenues	\$107,462
2.	Expenses	\$76,269
3.	Depreciation	\$4,337
4.	Taxes other than Income	\$4,810
5.	Taxable Income for State Tax	\$22,046
6.	State Tax @ 8.84% (minimum of \$800)	\$1,949
7.	Taxable Income for FIT	\$20,097
8.	Federal Income Tax @ 15%	\$3,014
9.	Total Income Tax	\$4,963

APPENDIX D

**ROLLING GREEN UTILITIES INC.
SEWER DIVISION**

COMPARISON OF RATES

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Schedule 1:			
Residential	\$24.20	\$31.98	32.15%