

WATER AND AUDITS/FLC/JPT/MML/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER & AUDITS DIVISION

RESOLUTION NO. W-4661

September 20, 2007

R E S O L U T I O N

**(RES. W-4661), RIO PLAZA WATER COMPANY, INC. (Rio Plaza).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING AN INCREASE IN GROSS ANNUAL REVENUES OF
\$65,411 OR 30.3% AND INTRODUCTION OF INCREASING BLOCK
RATES.**

SUMMARY

By Draft Advice Letter received on December 20, 2006, Rio Plaza requested an increase of \$75,000 or 33% in annual gross revenue for test year 2007 and to implement increasing block rates. This resolution grants Rio Plaza a general rate increase in gross annual revenues of \$65,411 or 30.3%. This will result in a return on margin of 23.0%.

BACKGROUND

Rio Plaza is a Class C water utility and serves 520 metered customers located in the area known as Rio Plaza, in the vicinity of El Rio about 3 miles north of Oxnard, in Ventura County.

Rio Plaza 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 \$75,000 or 33% in test year 2007. Rio Plaza's request shows 2007 gross revenues of \$224,635 at the rates in effect at the time of filing increasing to \$299,438 at proposed rates to produce a rate of margin of 22.92%. Rio Plaza also requested increasing block rates to encourage conservation, consistent with the Division of Water and Audits' (Division) Water Action Plan.

Rio Plaza's present rates became effective on February 27, 2007, pursuant to Resolution (Res.) No. W-4327, which authorized a one-time surcharge for Department of Public Health (DPH) Fees, and Decision (D.) 92-03-093, which authorized a Consumer Price Index (CPI) increase of 2.5%. Rio Plaza's last general rate increase became effective November 27, 1994 pursuant to Res. No. W-3892, which authorized a general rate increase of \$22,750 or 24.24%.

NOTICE

A notice of the general rate increase request was mailed to customers on April 16, 2007. The notice indicated an increase in gross revenue of \$83,538 or 38.7% (reflecting staff's differing estimate of revenues at current rates). The notice also clearly indicated the utility's request for increasing block rates. A public meeting was held on May 22, 2007, and was attended by two people. No one in attendance opposed the increase or requested a copy of the staff report. The Memorandum of Public Meeting is attached as Appendix E. There were no letters or e-mails protesting the increase.

DISCUSSION

The Division's Utility Audit, Finance, & Compliance Branch (UAFCB) completed a cash flow analysis of Rio Plaza's filing on January 18, 2007, and did not recommend an interim rate increase.

On May 22, 2007, Division staff made a site inspection in the afternoon before the public meeting and was accompanied by Jeff Densmore of the DPH's Division of Drinking Water and Environmental Management. The plant was found to be well maintained. Based on the site visit, the Division staff is in agreement with the utility that the electrical component of the plant needs to be updated. The Division's recommended 2007 rate base in Appendix A reflects Rio Plaza's estimate of the needed improvements.

The Division made an independent analysis of Rio Plaza's operations. Appendix A shows Rio Plaza's and Division's estimated Summary of Earnings at present, proposed, and recommended rates for test year 2007. Rio Plaza is in agreement with the Division's summary of earnings shown in Appendix A and the Division's recommended rates shown in Appendix B.

Rio Plaza's filing was made in 2006 at which time the Division's UAFCB had recommended a return on margin of 23% for a Class C utility. Two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return, and (2) Return on Margin. In Res. No. 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 this case the Division first calculated the return on margin of 23% and found that it corresponded to a rate of return of 19.55%, which obviously exceeds the 13.00% rate of return allowable at the time of filing. Therefore, the Division recommends a 23% return on margin.

Rio Plaza's present rate structure consists of two schedules: Nos. 1, General Metered Service, and 4, Private Fire Protection Service. The rates proposed by the Division are shown in Appendix B.

At the Division's recommended rates shown in Appendix B, the annual bill for a customer with a 3/4-inch meter and using 18 Ccf (One Ccf is equal to one hundred cubic feet) would increase from \$34.39 to \$45.49 or 32.28%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities are shown in Appendix D.

COMPLIANCE

Rio Plaza has no outstanding Commission compliance orders requiring system improvements. However, Rio Plaza needs to update its Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rule Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

COMMENTS

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

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. Rio Plaza should be required to update its Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rule Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; and Forms 2, Customer's Deposit Receipt; and 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 Rio Plaza 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 cancel its presently effective rate Schedules Nos. 1, General Metered Service; and 4, Private Fire Protection Service. The effective date of the revised rate schedules shall be five days after the date of filing.
2. Rio Plaza Water Company is authorized to increase its annual revenues by \$65,411 or 30.3% for test year 2007.
3. Rio Plaza shall update the following tariffs within 30 days in its tariff book: Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rule Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.
4. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311 (g) (3).
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 September 20, 2007; 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 SUMMARY OF EARNINGS

Item	Utility Estimated		Division Estimated		Division Recommended Rates
	Current Rates	Requested Rates	Current Rates	Proposed Rates	
Metered Rates	\$224,635	\$299,438	\$214,176	\$279,065	\$279,065
Private Fire	\$0	\$0	\$1,724	\$2,246	\$2,246
Total	\$224,635	\$299,438	\$215,900	\$281,311	\$281,311
<u>OPERATING EXPENSES</u>					
<u>Purchased Water</u>					
Purchased Power	\$19,754	\$19,900	\$19,900	\$19,900	\$19,900
Other VRE (Chemicals)	\$29,545	\$32,500	\$32,500	\$32,500	\$32,500
Employee Labor	\$0	\$0	\$0	\$0	\$0
Materials	\$3,524	\$3,627	\$3,083	\$3,083	\$3,083
Contract Work (Excl Water Testing)	\$28,000	\$28,000	\$23,857	\$23,857	\$23,857
Water Testing	\$0	\$0	\$794	\$794	\$794
Transportation	\$9,892	\$8,748	\$8,748	\$8,748	\$8,748
Other Plant Maintenance	\$5,028	\$5,000	\$5,000	\$5,000	\$5,000
Office Salaries	\$0	\$0	\$0	\$0	\$0
Management Salaries	\$25,000	\$26,000	\$25,724	\$25,724	\$25,724
Employee Benefits	\$20,471	\$16,356	\$16,356	\$16,356	\$16,356
Uncollectibles	\$674	\$898	\$724	\$724	\$724
Office Services & Rental	\$6,972	\$7,321	\$7,321	\$7,321	\$7,321
Office Supplies and Exp	\$782	\$821	\$821	\$821	\$821
Professional Services	\$35,076	\$36,000	\$36,000	\$36,000	\$36,000
Insurance	\$3,013	\$3,164	\$3,876	\$3,876	\$3,876
Regulatory Comm. Exp	\$5,769	\$6,057	\$4,724	\$4,724	\$4,724
General Expenses	\$1,475	\$1,549	\$1,549	\$1,549	\$1,549
Subtotal	\$194,975	\$195,941	\$190,977	\$190,977	\$190,977
Depreciation Expense	\$14,623	\$16,969	\$11,552	\$11,552	\$11,552
Taxes other than income	\$10,686	\$11,608	\$11,608	\$13,441	\$13,441
State Income Tax	\$800	\$6,731	\$800	\$5,776	\$5,776
Federal Income Tax	\$0	\$12,354	\$144	\$9,891	\$9,891
Interest Expense	\$3,523	\$0			
Total Deductions	\$224,607	\$243,603	\$215,082	\$231,638	\$231,638
NET REVENUE	\$27	\$55,835	\$818	\$49,673	\$49,673
<u>RATE BASE</u>					
Average Plant	\$445,109	\$507,819	\$505,309	\$505,309	\$505,309
Average Depreciation Reserve	\$215,671	\$232,640	\$227,243	\$227,243	\$227,243
Net Plant	\$229,438	\$275,179	\$278,067	\$278,067	\$278,067
<u>Less Advances</u>					
Contributions	\$44,629	\$42,717	\$42,717	\$42,717	\$42,717
Subtotal	\$44,629	\$42,717	\$42,717	\$42,717	\$42,717
Working Cash	\$17,467	\$17,742	\$17,742	\$17,742	\$17,742
Materials and Supplies	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Subtotal	\$18,467	\$18,742	\$18,742	\$18,742	\$18,742
Rate Base	\$203,276	\$251,204	\$254,092	\$254,092	\$254,092
RATE OF RETURN	0.00%	22.23%	0.32%	19.55%	19.55%
RETURN ON MARGIN	0.01%	22.92%	0.38%	23.00%	23.00%

**APPENDIX B
 (Page 1 of 2)**

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rio Plaza Subdivision and vicinity located northeast of El Rio Section of the City of Oxnard, Ventura County.

RATES

Quantity Rates per 100 cubic feet (Ccf):

Water used less than 6 Ccf.....	\$ 0.83	(I)
Water used in excess of 6 Ccf, but less than 12 Ccf.....	\$ 1.36	
All water used in excess of 12 Ccf.....	\$ 1.95	(I)

Service Charge:

	<u>Per Meter Per Month</u>	
	<u>Service Charge</u>	<u>Loan Surcharge</u>
For 3/4-inch meter.....	20.65 (I)	6.00
For 1-inch meter.....	34.42	8.10
For 1-1/2-inch meter.....	68.83	10.80
For 2-inch meter.....	110.13	14.60
For 3-inch meter.....	206.50	27.00
For 4-inch meter.....	344.16 (I)	36.80

[BALANCE OF SCHEDULE UNCHANGED-UTILITY TO SUBMIT FULL SHEET]

**APPENDIX B
(Page 2 of 2)**

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rio Plaza Subdivision and vicinity located Northeast of El Rio
Section of the City of Oxnard, Ventura County.

RATE

Per Service Per Month

For each inch of diameter of service connection \$ 10.40 (I)

[BALANCE OF SCHEDULE UNCHANGED-UTILITY TO SUBMIT FULL SHEET]

APPENDIX C

RATE COMPARISON FOR RESIDENTIAL CUSTOMER

	Present Rates	Recommended Rates	
Service Charge 3/4" meter	\$13.67	\$20.65	
Quantity Charge			
0 to 6	\$ 1.15	\$ 0.83	
7 to 12	\$ 1.15	\$ 1.36	
Over 12	\$ 1.15	\$ 1.95	
Usage (Ccf)	Present Bill (Per Month)	Recommended Bill (Per Month)	Percentage Increase
6	\$20.58	\$25.63	24.56%
12	\$27.48	\$33.79	22.95%
18	\$34.39	\$45.49	32.28%
24	\$41.29	\$57.19	38.49%
30	\$48.20	\$68.89	42.92%

APPENDIX D

ADOPTED QUANTITIES

Purchased Power:

Wells and Boosters: 2 meters both on SCE PA-1
kWh: 107,913
Office Room Lights: SCE GS-1
kWh: 1,217
Total usage: 109,130 kWh
Total cost: \$19,754
\$ per kWh: \$0.1810

Water Production:

Total for both wells: 121,037 Ccf

Water testing costs:

Minimum Year: \$794

Service Connections:

¾-inch		515
1-inch	3	
1 ½-inch	1	
3-inch	<u>1</u>	
Total		520

Depreciation Rate: 2.5%

California Corporate Franchise Tax: 8.84%

Federal Corporate Tax Rate: 15%

APPENDIX E
MEMORANDUM OF PUBLIC MEETING

DISTRIBUTION

F. L. Curry, Chief
J. Tom, Program and Project Supervisor
M. Kazemzadeh, Senior Engineer
M. C. Miller, Utilities Engineer

PREPARED BY:

M. C. Miller
Utilities Engineer

Date: May 29, 2007

Subject: Informal Public Meeting Concerning General Rate Increase Request by Rio Plaza Water Company

Held at: Rio Plaza School Cafeteria, Oxnard, CA

Date: Tuesday, May 22, 2007

Time: 6:30 P.M.

Present:

<u>NAME</u>	<u>TITLE</u>	<u>REPRESENTING</u>
Michael Miller	Utilities Engineer	CPUC Staff
John C. Nickel	President	Rio Plaza Water Company
Frank Brommenschenkel	Consultant	Rio Plaza Water Company

Notice of the meeting was mailed to the ratepayers on April 16, 2007. The meeting was scheduled at 6:30 p.m. and two people attended the meeting. In chatting with the attendees it was discovered that neither one lived in the service territory and that they had hoped that they could learn something about sewer service being installed by Ventura County. However, one of the attendees commented that she learned of the meeting from her mother's mail because the attendee helps her mother with her bills. She also commented that her mother's water was sometimes cloudy but cleared up in a few seconds. Mr. Brommenschenkel explained that this was caused by air getting into the water and took the address to dispatch maintenance. Since the one attendee had an interest, CPUC Staff decided to proceed with the meeting.

CPUC Staff started the meeting at 6:40 PM and explained the rate case process, the purpose of the meeting and the procedures the utility follows when requesting a rate increase. Mr. Brommenschenkel explained the need for the rate increase in light of the fact that there had not been a general rate increase in 13 years. He also mentioned that the company needed to replace some antiquated electrical equipment and one of the wells.

The interested attendee asked when the rate increase was to be expected. Mr. Miller indicated that it would be approximately two to three months. The attendee did not indicate that she would like a copy of the staff report.

The meeting was adjourned at approximately 7:00 p.m.