

Decision 87 10 071 OCT 28 1987

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
Kenwood Village Water Company for)	
authorization to increase rates for)	Application 86-09-016
water service in its area north of)	(Filed September 15, 1986)
Kenwood in Sonoma County.)	

John B. Downey, for Kenwood Village Water Company, applicant.
Mark J. Bartson, Department of Health Services, interested party.
Kathleen Kiernan-Harrington, Attorney at Law, and Robert Penny, for the Water Utilities Branch.

O P I N I O N

This order authorizes a revenue increase of \$7,405 for test year 1987, an increase of 20.3%.

Kenwood Village Water Company (Kenwood) has applied for authority to increase its gross revenue by \$10,500 or 37.8% for its service territory north of Kenwood in Sonoma County.

Evaluation and Compliance Division staff (staff) from the Water Utilities Branch and the Auditing Branch reviewed the application, performed an audit, corrected various calculations, and provided corrected values for several figures. Kenwood maintained that its original request was correct, but did not effectively contravert any of the findings of the staff audit.

I. Description of Company and Operations

Kenwood Village Water Company is located in Kenwood Village, an unincorporated area immediately north of Kenwood, Sonoma County. It serves about 221 residential customers. The

system is supplied by a well. The system has two available connections to the Sonoma County Water Agency Aqueduct.

II. Procedures

This application was originally a simplified advice letter, requesting a general rate increase for test year 1986. Notice to customers of the proposed rate increase was mailed on June 25, 1986. Petitions protesting the rate increase were received with 150 signatures, plus six individual letters. The major complaints were poor service and low pressure. Commission policy requires conversion of a draft advice letter to a formal application when a majority of the utility's customers protest the proposed rate increase and quality of service. Accordingly, the advice letter was converted to a formal application with a filing date of September 15, 1986.

Staff conducted a field inspection and an audit to arrive at their final recommendation.

Hearings were held on May 19 and 20, 1987. The matter was submitted at the close of hearing.

III. Need for Rate Relief

Staff calculates that the system, at present rates, would lose \$2,890 in 1987. Customer numbers are small and there is no significant population growth in the service area. Staff results show that Kenwood needs a rate increase to avoid losing money. Staff agrees that rate relief is necessary to preserve the system.

IV. Rate of Return

The requested rate of return was 16.90%, in 1986. Staff recommends a rate of return of 10.25%, but not to exceed the

originally requested revenue increase of \$10,500. A rate of return of 10.25% represents the low end of the range of from 10.25% to 10.75% provided by the Evaluation and Compliance Division's (ECD) Accounting and Financial Branch. Staff notes that its recommendation takes into account the observed poor management of the applicant. The rate of return of 10.25% is adopted.

V. Results of Operations

The applicant's filing used 1986 as a test year. Since a decision was not likely until mid-1987, the staff used 1987 as a test year for its calculations. Escalation factors for 1987 were provided by ECD's Advisory, Evaluation, and Research Branch. Labor escalation was 3.4%. Nonlabor escalation was 2.6%.

Staff showed that Kenwood had improved its billing procedure over a period of 16 months after a long period of erratic billing. Customer billing complaints refer to the period before Kenwood's change in billing procedures.

Staff found that Kenwood's accounting procedures were not adequate and that the actual course of Kenwood's financial history had to be reconstructed from its annual reports and from a checking account which served both the Kenwood and Penngrove Water Companies. Kenwood's records did not conform to the Uniform System of Accounts. Kenwood did not maintain a general ledger, depreciation schedule, payroll journal, working papers, or continuing property records. Hence staff was compelled to spend excessive time to complete the audit. Staff recommends that future requests for rate increases should not be accepted until Kenwood's records are brought up to standard.

Kenwood failed to provide any properly supported challenge to staff's audit. Kenwood simply asserted that it needed the amount it requested in order to provide continuing service. No coherent arguments were presented by Kenwood to contravert staff positions. Accordingly, staff's procedures and calculations are accepted. Justifications of differences between staff and Kenwood estimates are provided in the staff report. Staff recommendations are developed using accepted methods of accounting and analysis. They are based on careful examination of existing records and appropriate attention to the general operations and finances of small water companies. Accordingly, the staff values shown in the following table and their underlying calculations and assumptions are adopted.

ADOPTED SUMMARY OF EARNINGS
Kenwood Water Company
1987

<u>Operating Revenue</u>	\$ 43,954
<u>Operating Expenses</u>	
Purchased Water	6,520
Purchased Power	6,470
Other Vol Related	400
Total Vol Rel Exp	<u>13,390</u>
Employee Labor	3,990
Materials	450
Contract Work	600
Vehicle Expense	1,560
Total Non-Vol Related Expenses	<u>6,600</u>
Office Salaries	3,380
Management Salaries	5,950
Office Services and Storage Rental	1,200
Office Supplies and Expenses	2,130
Professional Svcs.	1,510
Insurance	200
Reg. Comm. Exp.	500
General Expenses	20
Total Admin. and Genl. Expenses	<u>14,890</u>
Subtotal	\$ 34,880
Property Taxes	\$ 1,190
Payroll Taxes	1,180
Depreciation	1,990
Income Taxes	1,092
Total Operating Expenses	<u>\$ 40,332</u>
<u>Net Revenue</u>	\$ 3,622
<u>Rate Base</u>	
Average Plant	\$117,372
Average Depreciation Reserve	37,480
Net Plant	79,892
Less: Advances	20,868
Contributions	28,913
Plus: Working Cash	4,730
Materials and Supplies	500
Rate Base	<u>\$ 35,341</u>
<u>Rate of Return</u>	10.25%

VI. Service Adequacy

Customers objected to the size of the proposed increase, and to the quality of service. Although 150 signatures had been collected for a petition opposing the rate increase, only five customers requested to speak at the hearing in Kenwood and only about 15 people attended who were not Commission staff or water company personnel. Notice of the hearing included publication in the local newspaper requested by the petition circulator, Mr. Van Sant. Customers reported low pressure, failure to clean up after pipe-break repairs, and erratic billing.

Objections to the size of the rate increase were based upon the ability of customers to pay. Many customers are on fixed incomes and find any rate increase undesirable.

The State Department of Health Services (Department) submitted a letter describing a water supply permit the Department is issuing to Kenwood. The Department requested that any rate increase granted by the Commission be made contingent upon certification by the Department that the applicant is making satisfactory progress towards meeting the conditions of the permit. The Department further requested that, if the rate increase is phased in over two or more years, increases in the second and third years should be made contingent upon Department certification of continued compliance.

This Commission does not ordinarily use its decisions and orders to duplicate the orders of other agencies with independent enforcement powers. However, the concerns of the Department and the fact that it considered several elements of Kenwood's operation in need of corrective orders can be properly considered as indications of inadequate service.

The Department is imposing the following conditions on Kenwood:

- "1. That the Company continuously monitor and record the water pressure in their distribution system at a point near their connection to the Sonoma County Water Agency Aqueduct on Green Street. These readings are to be forwarded to this Department monthly until such time as the Company has demonstrated reliable maintenance of water pressure in the system.
- "2. That the Company ensure the installation of acceptable backflow prevention devices at the service connections identified in their letter of February 20, 1987.
- "3. That the Company prepare and submit to this Department an adequate map of the water system.
- "4. That the Company maintain adequate water treatment records on a daily basis.
- "5. That the Company have a system hydraulic analysis of the distribution system performed by a professional civil engineer to include actual pressure readings at key points in the system during peak daily and peak hourly demands and evaluate the ability of the system to meet the demands of the existing system and anticipated incremental growth.
- "6. That the Company have performed an adequate pump test of the system well."

The Department also provided comments on the staff report, as follows:

- "1. We agree with the Branch's Recommendation No. 11.2 that the Applicant should be ordered to take such steps as are necessary to ensure adequate pressure.

"This Department installed a continuous-recording pressure gauge in the system for 48 hours from May 14 to May 16, 1987. The readings from this instrument showed that the pressure ranged from 57 pounds per square inch (psi) at night to 34 psi during

the day. It is emphasized that these readings were not from a period of peak seasonal demand. From these readings and our knowledge of the system, it is our conclusion that there is in fact a pressure problem requiring corrective action.

"However, this problem may not be able to be resolved by purchasing more water from the SCWA aqueduct. This is because the pressure in the SCWA aqueduct is estimated by the SCWA to drop to as low as 29 psi during peak demand periods. This would probably not be adequate to ensure the maintenance of adequate pressures in the Kenwood system.

"We recommend that the Applicant be required to submit a plan and take actions to ensure that the water pressure in the system meets the Standards of both the Commission and the Department of Health Services. This plan should be required to be prepared by a registered Civil Engineer and should be subject to review and approval of both the Commission and this Department.

- "2. Applicant should be required to provide data on the percentage of water that cannot be accounted for. This is important to this Department in that it indicates the severity of any leakage problem. It is our understanding that at this time the Applicant does not have adequate records to make a determination of this parameter."

Staff showed that Kenwood had expanded its customer base without enlarging its well supply. The well was originally constructed at an estimated production rate of 375 gallons per minute (gpm). This size well is not adequate for over 100 residential customers. It cannot supply the presently required minimum fire flow of 500 gpm. Pressure frequently falls below the standards set by G.O. 103. Construction of a new well or of a major storage tank would be very expensive for Kenwood. A partial solution to the supply problems is available but has not been used.

The Kenwood system has two connections to the Sonoma County Water Agency Aqueduct. Both of these connections are presently maintained in a closed position, one with a simple valve, the other with a pressure operated valve set at a pressure higher than that usually available from the aqueduct. At present the system uses little or no water from the aqueduct. Staff recommends that the connections be used to take water from the aqueduct to improve pressure and flow in the system. Staff's full recommendation is that Kenwood be ordered to take such steps as are necessary, including using more water from the Sonoma Aqueduct, to bring system's pressures up to G.O. 103 standards.

Commission Resolution W-3292 (1985) granted Kenwood an offset increase and ordered it to initiate and maintain a balancing account for purchased power and water. Kenwood failed to do so. Staff recommends that Kenwood be ordered to establish and maintain the balancing accounts ordered by Resolution W-3292. The accounts should begin with the balances shown for January 1, 1987 in Chapter 4 of the staff report. Staff's recommendation is accepted.

In order to alleviate the supply problems, the applicant needs to use aqueduct water. The staff recognized the cost and allowed for the extra expense in its current recommended summary of earnings. Staff recommends that, as of the effective date of this order, the balancing account for purchased water should be modified to track both price and quantity of purchased water. By making money available to purchase water, this modification will give the applicant incentive to take the necessary steps to improve its service. Staff's recommendation is accepted.

In view of applicant's past reluctance to use aqueduct water, staff recommends that this decision be made an interim decision subject to review after one year. Applicant should be ordered to report to the Water Utilities Branch within 30 days after the close of each calendar quarter: amounts of water purchased, rate, and cost, by month with proofs of purchase and

balancing account entries and balances by month. Staff's recommendation for reporting by applicant is accepted; however, we believe making this an interim decision is unnecessary. If the applicant fails to comply with this decision the staff may petition to reopen this proceeding.

VII. Rate Design

In I.84-11-041, D.86-05-064, dated May 28, 1986, the Commission adopted a statewide flatter rate design policy for water utilities. The provisions of that policy apply to this rate case and are followed here. The relevant policy elements are:

- a. Service charges shall be set to allow utilities to recover up to 50% of their fixed cost.
- b. Lifeline rates shall be phased out.
- c. There may be multiple commodity blocks, with the number of commodity blocks to be limited to no more than three blocks.
- d. Seasonal rates may be applied in resort areas.

The statewide goals set by D.86-05-064 are limitation of a utility's service charges to recover up to 50% of its fixed costs (as defined in the decision), to generally establish a single commodity block for metered service, and to avoid excessive rate increases at any consumption level. These goals cannot always be met at the same time.

When relatively low dollar amount increases are applied to small districts, relatively large percentage increases occur without greatly changing absolute bill payment sizes.

In addition to ordinary rates based upon the staff's recommended summary of earnings, staff recommends two additional rate components to deal with balancing accounts. A surcharge is

shown to amortize the balance in the purchased power balancing account as of January 1, 1987 over a 12-month period. This surcharge would automatically expire after twelve months. A separate surcharge would offset the amount of purchased water (less the purchased power savings) shown in the Branch's summary of earnings. This surcharge would automatically expire 12 months after the effective date of this decision to be replaced by a new surcharge to be calculated to offset the average level of water purchases during the preceding year plus or minus an amount necessary to amortize the balancing account under or over-collection by the end of the 12-month period. The second surcharge should expire after 12 months to be replaced by a permanent surcharge calculated likewise but to continue without expiration until Applicant's subsequent offset or general rate increase proceeding.

The staff's recommended rates are described in Appendix A. These rates are reasonable and fair and take due account of the Commission's other considerations in these matters, as described above. Accordingly, the staff's recommendations are adopted. Appendix B shows the adopted quantities used for rate calculations. Appendix C compares present rates with those authorized here.

Findings of Fact

1. Staff's estimates for utility plant operations correctly reflect the current status and operations of Kenwood's system and are reasonable estimates of future performance.

2. Kenwood's bookkeeping and service quality are sufficiently below acceptable levels to warrant a lower rate of return.

3. The low end of the staff's recommended range, 10.25%, should be the allowed rate of return.

4. The adopted rates in Appendix A are designed to implement the policy goals of D.86-05-064, and hence are in accord with Commission policy.

5. The rate surcharges, as described above, are a reasonable and appropriate means of dealing with the specific supply and financing problems of this system.

6. The increases in rates and charges authorized by this decision are justified and are just and reasonable.

7. Applicant can improve present flow and pressure deficiencies by taking water from the Sonoma County Water Agency Aqueduct.

8. Kenwood's records do not meet the minimum requirements for audit review, since they lack a general ledger, payroll records, and work papers.

9. Commission Resolution W-3292 (1985) granted Kenwood an offset increase and ordered it to initiate and maintain a balancing account for purchased water and power.

Conclusions of Law

1. The staff's figures should be adopted.

2. Staff's recommendation that this decision issue an interim order to be reviewed at the end of one year should be denied.

3. Kenwood should be ordered to bring its records up to standard before submitting future rate increase requests.

4. Because of the immediate need for additional revenues, this order should be effective today.

5. Kenwood should be ordered to establish and maintain the balancing accounts ordered by Resolution W-3292.

ORDER

IT IS ORDERED that:

1. After the effective date of this order, Kenwood Village Water Company (Kenwood) is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order 96-A. The effective date of such filing shall be five days after filing. The revised schedules shall apply to service rendered on or after the effective date hereof.

2. Before submitting its next rate increase request, Kenwood shall bring its records up to standard by preparing and maintaining standard accounting records including a general ledger, payroll records, and working papers.

3. Kenwood shall establish and maintain the balancing accounts ordered by resolution W-3292. The accounts should begin with the balances shown for January 1, 1987, in the staff report, Chapter 4.

4. Kenwood shall take such steps as are necessary, including using water from the Sonoma Aqueduct, to bring the system's pressures up to G.O. 103 standards.

5. Kenwood shall report quarterly to the Evaluation and Compliance Division, Water Utilities Branch, within 30 days after the close of each calendar quarter:

- a. Amounts of water purchased, rate, and cost, by month, with proofs of payment.
- b. Balancing account entries and balances by month.

6. As of the effective date of this order, Kenwood shall modify the balancing account for purchased water to track both price and quantity of purchased water.

7. One year from the effective date of this order, staff is instructed to review the status of Kenwood's compliance and to petition to reopen if necessary.

8. A.86-09-016 is granted as set forth above.


This order is effective today.

Dated OCT 28 1987, at San Francisco, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Wanser, Executive Director

AB

APPENDIX A

ADOPTED RATES

Kenwood Village Water Co.

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In the unincorporated area known as Kenwood Village, immediately north of Kenwood, Sonoma County.

RATES

Quantity Rates:

	Per Meter Per Month		Per Meter Per Month*	
			Surcharge Bal. Acct.	Surcharge Purchased Water
For all water delivered, per 100 cu.ft.....	\$ 0.45	(I)	\$0.02 (N)	\$0.13 (N)

Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 5.50	(I)	-	-
For 3/4-inch meter.....	6.05		-	-
For 1-inch meter.....	8.25		-	-
For 1-1/2-inch meter.....	11.00		-	-
For 2-inch meter.....	14.85	(I)	-	-

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

*Effective for 12 months from the effective date of this tariff.

(END OF APPENDIX A)

APPENDIX B

Page 1

ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Kenwood Village Water Company

Net-to-Gross Multiplier:	N/A
Federal Tax Rate	15.0%
State Tax Rate	9.6%
Local Franchise Tax Rate	0.0%
Business License	0.0%
Uncollectible Rates	0.0%

Expense Test Year 1987

<u>1. Purchased Power (Electric)</u>	
<u>Pacific Gas and Electric Company</u>	
Total Cost	\$ 6,470
kWh Used	70,725
Schedule and Date	A-1, 3/87
\$/kWh Used	\$0.09042
Power Cost	\$ 6,395
Customer Charge	\$ 75
2. Purchased Water	\$ 6,520
Volume in Acre-Feet	23.48
Cost per Acre-Foot	\$ 277.68
3. Pump Tax - Replenishment Tax	-
4. Payroll and Employee Benefits	
Operation and Maintenance Payroll	\$ 3,990
Administrative and General Salaries	9,330
Total	\$ 13,320
Payroll Taxes	\$ 1,180
5. Ad Valorem Taxes	\$ 1,190
Tax Rate	1.234%
Assessed Value	\$ 96,445
<u>Metered Sales used to Design Rates (Ccf)</u>	50,896.3
<u>Connections used to Design Rates</u>	
5/8 x 3/4	221

APPENDIX B
Page 2

Kenwood Village Water Co.

ADOPTED QUANTITIES
(1987 Test Year)ADOPTED TAX CALCULATIONS

<u>Item</u>	<u>@ Adopted Rates</u>	
	<u>CCFT</u>	<u>FIT</u>
Operating Revenues	\$43,954	\$43,954
Operating Expenses	34,880	34,880
Property Tax	1,190	1,190
Payroll Tax	1,180	1,180
Interest Expense	0	0
Tax Depreciation	1,990	1,990
State Income Tax	-	453
Subtotal Deduction	<u>39,240</u>	<u>39,693</u>
State Taxable Income	4,714	-
State Income Tax @ 9.6%	453	-
Federal Taxable Income	-	4,261
Federal Income Tax @ 15%	-	639
Total Income Tax	-	1,092

(END OF APPENDIX B)

APPENDIX C

Kenwood Village Water Co.

COMPARISON OF RATES

A comparison of present and Branch's recommended rates is shown below:

METERED SERVICE

Service Charge:

	Per Meter Per Month			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Surcharge Bal. Account</u>	<u>Surcharge Purch Wtr.</u>
For 5/8 x 3/4-inch meter.....	\$2.00	\$ 5.50	-	-
For 3/4-inch meter.....	2.20	6.05	-	-
For 1-inch meter.....	3.00	8.25	-	-
For 1-1/2-inch meter.....	4.00	11.00	-	-
For 2-inch meter.....	5.40	14.85	-	-

Quantity Rates:

First 400 cu.ft., per 100 cu.ft..	\$0.35			
Over 400 cu.ft., per 100 cu.ft..	0.67			
For all water, per 100 cu.ft.....		\$ 0.45	\$0.02	\$0.13

COMPARISON OF BILLS

A comparison of monthly customer bills at present and Branch's recommended rates for 1987 test year for a 5/8 x 3/4-inch meter is shown below:

<u>Usage 100 cu.ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>1/ Amount Increase</u>	<u>Percent Increase</u>	<u>Surcharge Bal. Acct.</u>
0	\$ 2.00	\$ 5.50	\$ 3.50	175.00	\$ 0
4	3.40	7.82	4.42	130.00	0.08
10	7.42	11.30	3.88	52.29	0.20
15	10.77	14.20	3.43	31.85	0.30
19.2 (Avg.)	13.58	16.64	3.06	22.53	0.38
20	14.12	17.10	2.98	21.10	0.40
30	20.82	22.90	2.08	9.99	0.60
40	27.52	28.70	1.18	4.29	0.80
50	34.22	34.50	0.28	0.82	1.00
100	67.72	63.50	(4.22)	(6.23)	2.00

(Negative)

1/Purchased water surcharge is included.

(END OF APPENDIX C)