

Decision 87 11 054 NOV 25 1987

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Pennngrove Water Company for a)
general rate increase for water)
service of 35% in the unincorporated area of Pennngrove in Sonoma)
County.)

Application 86-11-027
(Filed November 19, 1986)

John B. Downey, for himself, dba Pennngrove
Water Company, applicant.

George Nitzberg, for West Pennngrove Water
Association, protestant.

Mark J. Bartson, for California Department
of Health Services, and Sol Fishman, for
Pennngrove Water Committee, interested
parties.

Kathleen Kiernan-Harrington, Attorney at Law,
for the Evaluation and Compliance Division.

OPINION

Introduction

This application was originally a draft advice letter filing seeking a 35% increase in applicant John B. Downey's (Downey) rates. (The title block is incorrect; it should show that Mr. Downey operates the utility systems in question using Pennngrove Water Company as a business name.) The proceeding was converted to a formal application on the recommendation of the Commission's Water Utilities Branch staff (staff) after objections were raised by Pennngrove Water Advisory Committee (PWAC),¹ and the California Department of Health Services (DHS).

¹ PWAC consists of a group of five area residents appointed by the County Board of Supervisors. Its original purpose was to review the possibility of organizing a district to condemn and take over applicant's plant. A decision has been reached not to take applicant's system by eminent domain. During this proceeding, the PWAC served to represent consumer interests directly and to encourage individual customers to make statements.

There are two physically separated systems, the Penngrove system proper (288 connections) which uses water purchased from the Sonoma County Water Agency and the Canon Manor system (64 connections) which relies on well water. The service area includes the community of Penngrove and nearby territory in Sonoma County.

After this matter was converted to a formal proceeding and a processing schedule was issued, staff encountered difficulties in reviewing applicant's records. Consequently, the schedule was delayed at applicant's request to enable him to locate and present records to support his rate base and expense claims. When the documents furnished were found inadequate to permit an analysis of applicant's claims, additional time was allowed for staff to audit and reconstruct applicant's financial records.

Hearing was held in Penngrove before Administrative Law Judge (ALJ) Gilman on May 27. The purpose of that day's afternoon and evening session was to receive comments from interested customers. On May 27 each of the appearances summarized its position; 15 individual consumers also made statements on their own behalf. DHS made its full presentation on that day. A second day of hearing for technical evidence was held in San Francisco on May 28.

The proceeding was taken under submission on July 7 after the filing of briefs by staff and applicant. DHS and PWAC did not file briefs. Applicant did not file a late-filed exhibit as directed by the ALJ. The exhibit was intended to demonstrate that applicant had (or had not) published notice of the hearing.

There was little opposition by individual consumers to a rate increase per se. However, most were concerned that applicant would not use the added funds to make needed improvements in his system. The existing system, according to them, includes undersized mains; improper sizing contributes to loss of pressure, especially on hot days. They contended that any significant increase should be conditioned on system improvements. They also

recommended that applicant's efforts to correct system deficiencies be closely monitored.

The consumers were also concerned about a recent incident in which a water sample showed contamination. Two customers noted that applicant had delayed informing consumers of the contamination problem. They stated that the applicant had not tested his water regularly.

Several customers stated that applicant was very slow to fix leaks, resulting in a great loss of purchased water.

One customer made a statement on behalf of a group of customers who had advanced moneys for a main extension. According to the spokesman, the applicant had not made any payments as required by the main extension agreement. He also noted that the water pressure is so low on hot days that these customers cannot take a shower or wash dishes. He also contended that water pressure was inadequate to meet fire flow requirements of the local fire district. He also complained of shoddy maintenance and failure to fix leaks properly.

Several customers complained that there was no local telephone number for the utility. In order to report a leak or make any inquiry about service or billing, utility customers must make a toll call to applicant's home. All too often they must leave a message on an answering machine. Applicant frequently fails to call back.

DHS has imposed a moratorium on new connections by this utility because he has failed to meet DHS requirements to upgrade the system. In particular, DHS wants a standby pump and power supply for the single well serving Canon Manor system. It also wishes to have the results of a pump test on the Canon Manor well.

DHS supports the customers' recommendation for a local telephone number. It also supports a staff recommendation that we require a sharp reduction in the amount of unaccounted for water.

It also supports the staff proposals for replacing undersized, leaky mains.

DHS notes that the company has adopted adequate plans for cross-connection control, but is concerned that the plans have not yet been fully implemented.

In correspondence introduced in evidence, DHS raised other issues. Applicant's employee has not been certified or applied for certification as a water system operator. There were several deficiencies in the manner in which applicant procures water samples for testing. Applicant has not prepared or submitted a water quality monitoring plan such as DHS requires of all system operators.

Staff, in an exhibit introduced in San Francisco, contended that:

1. Applicant should be ordered again to establish and maintain the balancing account ordered by Resolution W-3293.
2. Applicant should again be ordered to complete the improvements ordered in Decision (D.) 90426 with the following modification and addition:
 - a. The 1-inch main on Ronsheimer Road should be replaced with at least a 6-inch main.
 - b. The existing undersized mains along Old Redwood Highway between Ronsheimer Road and Goodwin Avenue should be replaced with 8-inch mains.
3. Applicant should also be ordered to seek a loan through the Safe Drinking Water Bond Act (SDWBA) to finance the improvements.
4. Applicant should be encouraged to continue his program of meter replacement as funds become available and to repair leaks in a timely fashion; staff recommended that unaccounted water be set at 8%, well below the 25% experienced by the applicant in 1986.

5. Applicant should be ordered to install a toll-free telephone service for the Penn Grove area. Staff argued that this could be accomplished without cost to applicant by making available the telephone number of the serviceman presently located in the Penn Grove area. This telephone number should be placed in the next telephone directory and be included on the bills. Proof of this installation should be submitted to the staff within 30 days of this order.
6. Rates authorized in this proceeding should be based on the staff's estimated expenses and rate base for 1987.
7. The adopted rate design should conform with the current Commission water rate design policy.
8. A rate of return of 10.25% should be adopted.

Applicant made no effective rejoinder to the staff adjustments and estimates other than to assert that his own rate base figures were reliable. He still maintains that the Penn Grove/Canon Manor operations lose money. He also made a comparison study to show that his rates were low in comparison to other nearby water utilities. In his brief, he disclosed for the first time that he owes a large sum to the County Water Agency for purchased water.

DISCUSSION

I. Balancing Account

A. Water Waste and the Purchased Water Balancing Account

On November 13, 1985 applicant was granted a rate increase (Resolution W-3293) to offset the cost of purchased water.

The resolution ordered applicant to maintain a balancing account pursuant to Public Utilities (PU) Code § 792.5. However, the evidence indicates that applicant failed to comply.

The staff reconstructed a balancing account. According to its figures, the amount of overcollection was \$81. Since the sum was so small, staff recommended that there be no flow-through to customers. However, staff recommended that applicant again be ordered to establish a balancing account with an initial balance of \$81 as of December 31, 1986.

Staff notes that applicant is unable to account for roughly 25% of the water he pumps or purchases. It states that other utilities, on the average, are unable to account for no more than 8% of their water. It concludes that applicant has allowed excessive water loss by failing to fix leaks quickly, and by failing to replace or repair broken meters.

In order to encourage him to reduce water waste and thus reduce costs, staff has reduced its ratemaking allowance for unaccounted for water from the historical 25% to 8%. (Staff did not make a comparable adjustment in electrical cost; however, applicant could achieve a similar benefit by reducing pumping costs for Canon Manor if he will fix leaks and broken meters in that system.)

Staff has not reconciled its recommendations. Its proposed expense disallowance assumes that applicant will bear (and thus try to minimize) the economic burden of excessive water losses. On the other hand, instituting a balancing account assumes that both over- and undercollections will be passed through to consumers. Flowing through the savings from better leak detection or meter replacement would not encourage applicant to vigorously pursue either activity.

We will therefore reject staff's recommendation that the balancing account be instituted but will adopt the disallowance.

Applicant will be required to distribute the \$81 account balance to customers who are served with purchased water.

II. The Audit

Staff, as a result of its audit, proposed to restate applicant's balance sheet accounts to:

- a. Disallow certain claimed plant additions;
- b. Adjust accumulated depreciation of water plant;
- c. Reduce the Material and Supplies account;
- d. Increase the amount of Advances for Construction;
- e. Increase the amount of Contributions in Aid of Construction; and
- f. Increase the amount of amortized contributions.

In evaluating the Water Plant account, staff found that expenditures for plant, particularly in 1986, were the subject of contradictory documentation. In addition, staff noted that applicant had included in his Plant accounts a tract of land not in use since 1976 and subsequently sold in 1985. Staff was also unable to verify some \$24,000 of claimed plant additions for 1976. Accordingly, staff recommended that the account be adjusted downward.

The company also claims a second well; as of the date of hearing the well was not used. Since applicant conceded that it would not be placed in service until modifications were made, staff recommended that the well and its related depreciation be accounted for as nonutility plant.

There was no documentation of certain claimed additions to Transportation Equipment. There were similar problems in the

Other Equipment account. Again, staff recommended downward adjustments.

Staff concluded that the 1% depreciation rate which applicant began using in 1985 and 1986 was unrealistic. A staff engineer recommended that a 2.42% rate would be reasonable. Using this rate, staff proposed to adjust the Water Plant account balance. (Staff's recommendation for test year depreciation expense allowance also used this rate.)

In evaluating Materials and Supplies, staff found that applicant had failed to conduct regular inventories, that he commingled equipment for his Kenwood system, and that his records were generally insufficient to support his claims.

Applicant did not report that any of his plant had been financed by contributions, rather than with his own funds. The audit, however, revealed that substantial portions of the claimed water plant should have been recorded as contributed. Staff found that there were \$87,796 of pre-1986, and \$6,305 of 1986 contributions. Staff also recommended comparable adjustments to amortization of contributions, using the same rate as used for depreciation.

Staff was unable to verify the majority of claimed refunds on advances for construction. It therefore concluded that advances for construction should be increased by nearly \$32,000. It reported that the correct balance at 1986 year-end should be \$83,472.

The adjustments to the balance sheet accounts are summarized in the table which follows:

Summary of Audited Adjustments on Balance Sheet Accounts

<u>Water Plant in Service</u>	<u>As of December 31, 1985</u>			<u>As of</u>
	<u>Utility</u>	<u>Staff</u>	<u>Differences</u>	<u>12/31/86</u>
				<u>Staff</u>
Intangible Plant	\$ 750	\$ 0	\$ (750)	\$ 0
Land	4,000	4,000	0	4,000
Structures	834	834	0	1,195
Wells	9,945	2,823	(7,122)	2,823
Pumping Equipment	13,579	13,579	0	13,579
Other Water Source	22,502	22,502	0	30,315
Water Treatment Plant	362	362	0	362
Reservoirs/Tanks	4,271	4,271	0	4,271
Water Mains	247,298	222,727	(24,571)	222,727
Services & Meter Install.	19,981	19,981	0	19,981
Meters	10,773	10,773	0	13,491
Hydrants	6,620	6,620	0	6,620
Other Equipment	1,450	0	(1,450)	0
Office Equipment	178	178	0	178
Transportation Equipment	<u>5,899</u>	<u>0</u>	<u>(5,899)</u>	<u>0</u>
Total Plant in Service	348,442	308,650	(39,792)	319,542
Accumulated Depreciation	78,271	74,661	(3,610)	82,165
Materials & Supplies	600	0	(600)	0
Advances for Construction	52,476	84,207	31,731	83,472
Contribution in Aid of Construction	0	87,796	87,796	94,101
Accumulated Amortization of Contribution	0	6,623	6,623	8,442

(Red Figures)

The following table summarizes the auditor's adjustments to 1986 and earlier recorded expense accounts. The 1984 and 1985 adjusted figures were considered in conjunction with 1986 recorded figures to develop the 1987 estimated expenses.

Results of Audit - Expenses

Volume-Related Expenses

	<u>Reported</u>	<u>Difference</u>	<u>Audited</u>
1984	\$41,332	\$ (289)	\$41,043
1985	46,079	660	46,739
1986	49,000	(2,267)	46,733

Nonvolume-Related Expenses

1984	\$ 7,698	\$ 2,130	\$ 9,828
1985	9,026	(4,872)	4,154
1986	9,400	(3,117)	6,283

Administrative & General Expenses

1984	\$28,839	\$ (6,778)	\$22,061
1985	30,032	(15,799)	14,233
1986	31,045	(9,998)	21,047

The 1986 audited expense figures are detailed in the table labeled "Expenses" below.

III. Results of Operations

A. Revenue

Applicant estimated that his 1986 revenue would be \$81,000. Staff found that actual recorded revenue was over 10% higher. Staff estimated that 1987 revenue would remain approximately the same as recorded 1986. This 1987 estimate did not include any revenue increase from replacing broken meters.

B. Expenses

Staff treated income taxes, including test year estimates, as above-the-line expenses. As shown by the table below we have calculated state and federal taxes using the staff-recommended revenue requirement.

Income Taxes on Staff-Recommended Rates
(1987 Test Year)

<u>Item</u>	<u>CCFT</u>	<u>FIT</u>
Operating Revenues	\$92,320	\$92,320
Operating Expenses	74,140	74,140
Property Tax	2,000	2,000
Payroll Tax	1,810	1,810
Interest Expense	0	0
Tax Depreciation	5,820	5,820
State Income Tax	<u>-</u>	<u>821</u>
Subtotal Deduction	83,770	84,591
State Taxable Income	8,550	-
State Income Tax at 9.6%	821	-
Federal Taxable Income	-	7,729
Federal Income Tax at 15%	-	1,159
Total Income Tax	-	1,980

Staff recommends that we apply the 1986 tax law in this proceeding. The effects of 1987 tax law changes should be handled separately as determined by the final decision in Order Instituting Investigation 86-11-019.

The staff's purchased water adjustment has been discussed above. Staff's other 1987 expense estimates were developed after consideration of the audited figures from the prior three years. The 1987 estimates relied on engineering judgment as well as trended historical data. The staff used 3.4% for labor cost appreciation and 2.6% for nonlabor cost appreciation.

The most significant differences between applicant's estimated 1986 expenses and staff's estimated 1987 expenses are:

1. The adjustment to purchased water discussed above under "Balancing Account."
2. Pensions and Benefits: since the audit found no outlays in previous years, staff projected a zero cost for 1987.
3. Regulatory Commission Expense: applicant erroneously included the PUC Reimbursement fee in this account.
4. General Expenses: staff's estimate was based on the audit. It is not clear how applicant developed his estimate.
5. Professional Services: staff used a three-year average.
6. Uncollectibles: the staff auditors found no entry for uncollectibles in past years. Staff argued that applicant can continue to avoid uncollectible losses by requiring deposits under its Rule 7.

The following table compares applicant's estimates of operating expenses for 1986 with the audited figures. It also includes the staff's estimate for 1987. In all accounts, applicant used its 1985 recorded expenses as its estimated expenses for 1986; he did not submit estimated expenses for 1987.

Item	<u>Expenses</u>			<u>Estimated Year 1987</u>	
	<u>Year 1986</u>				
	<u>Applicant</u> <u>Estimated</u>	<u>Staff</u> <u>Audited</u>	<u>Applicant</u> <u>Exceeds</u> <u>Audited</u>	<u>Applicant</u>	<u>Staff</u>
Purchased Water	\$45,000	\$42,574	\$2,426	-	\$39,220
Purchased Power	4,000	3,552	448	-	3,480
Other Vol. Related	-	607	(607)	-	710
Total Volume- Related Exp.	49,000	46,733	2,267	-	43,410
Employee Labor	5,900	2,463	3,437	-	6,100
Materials	1,000	1,125	(125)	-	950
Contract Work	0	921	921	-	950
Vehicle Expense	2,500	1,774	726	-	2,360
Total Nonvolume- Related Exp.	9,400	6,283	3,117	-	10,360
Office Salaries	5,070	3,357	1,713	-	5,240
Management Salaries	9,100	3,120	5,980	-	9,100
Pensions & Benefits	1,335	0	1,335	-	0
Uncollectible	500	0	500	-	0
Office Services & Storage Rental	1,800	0	1,800	-	1,800
Office Supplies & Expenses	900	1,468	(568)	-	1,510
Professional Services	1,500	2,687	(1,187)	-	1,900
Insurance	225	294	(69)	-	300
Reg. Comm. Exp.	1,750	1,361	389	-	500
General Expenses	1,500	19	1,481	-	20
Total Admin. & General Expenses	23,680	12,306	11,374	-	20,370
Total Operating Expenses	82,080	65,322	16,758	-	74,140

(Red Figure)

The following table shows a comparison of the staff's estimates for the years 1986 and 1987 and the applicant's proposal for 1986 at present and proposed rates:

Summary of Earnings

	<u>Applicant</u>		<u>Staff Adjusted</u>		<u>Applicant Exceeds</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	<u>Adjusted</u>	<u>Present</u>
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Present</u>	<u>Proposed</u>
<u>Estimated Year 1986</u>						
Oper. Rev.	\$ 81,000*	\$109,350	\$90,590*	\$122,300	(9,590)	(12,950)
<u>Expenses</u>						
Oper. Exp.	81,545	82,080	65,322	65,322	16,223	16,758
Prop. Taxes	2,150	2,150	2,309	2,309	(159)	(159)
Payroll Taxes	2,250	2,250	747	747	1,503	1,503
Depreciation	3,500	3,500	5,348	5,348	(1,848)	(1,848)
Income Taxes	<u>0</u>	<u>0</u>	<u>3,827</u>	<u>11,730</u>	<u>(3,827)</u>	<u>(11,730)</u>
Total Exp.	89,445	89,980	77,553	85,456	11,892	4,524
Net Oper. Rev.	(8,445)	19,370	13,037	36,844	(21,482)	(17,474)
Rate Base	215,162	215,162	70,753	70,753	144,409	144,409
Rate of Return	(Loss)	9.00%	18.43%	52.07%	N/A	(43.07%)

Estimated Year 1987 - Staff

Oper. Rev.	-	-	91,200	123,100	-	-
<u>Expenses</u>						
Oper. Exp.	-	-	74,140	74,140	-	-
Prop. Taxes	-	-	2,000	2,000	-	-
Payroll Taxes	-	-	1,810	1,810	-	-
Depreciation	-	-	5,820	5,820	-	-
Income Taxes	<u>-</u>	<u>-</u>	<u>1,720</u>	<u>9,430</u>	<u>-</u>	<u>-</u>
Total Exp.	-	-	85,490	93,200	-	-
Net Revenue	-	-	5,710	29,900	-	-
Rate Base	-	-	64,100	64,100	-	-
Rate of Return	-	-	8.91%	46.65%	-	-

(Red Figure)

*Applicant's figures are estimated;
staff's is the recorded actual revenue.

IV. Investment and Rate BaseA. Utility Plant

As can be seen from the accompanying table, the principal differences between utility and staff figures were the auditing adjustments discussed above and a disallowance of 1986 plant additions of roughly \$22,000. The staff's adjusted 1986 figure for additions is based on recorded data; applicant's higher figure was an estimate.

Applicant did not provide a test year estimate; the staff's estimate of average test year plant was \$319,542.

Utility Plant

<u>Year</u>	<u>Item</u>	<u>Applicant Estimated</u>	<u>Staff Audited</u>	<u>Applicant Exceeds Audited By</u>
1985	Beginning-of-Year Utility Plant	\$324,965	\$324,965	0
	Additions	23,477	23,477	0
	Retirements	0	0	0
	Audited Adjustments	0	(39,792)	\$39,792
	End-of-Year Utility Plant	348,442	308,650	39,792
	Average Year Utility Plant	336,688	-	-
1986	Beginning-of-Year Utility Plant*	348,442	308,650	39,792
	Additions	33,207	10,982	22,315
	Retirements	0	0	0
	End-of-Year Utility Plant	381,649	319,542	62,107
	Average Year Utility Plant	365,046	314,096	50,950
			<u>Staff Estimated</u>	
1987	Beginning-of-Year Utility Plant	-	319,542	-
	Additions	-	0	-
	Retirements	-	0	-
	End-of-Year Utility Plant	-	319,542	-
	Average Year Utility Plant	-	319,542	-

*Recorded 1986 Annual Report.

B. Rate Base

Rate base is the amount which a utility has invested in its business. It can earn only on that portion of its plant and other assets which represents its own investment.

The major difference between staff's and applicant's revenue requirement is caused by the staff's reduction in pre-1986 rate base. As can be seen from the accompanying table, applicant claimed a rate base in excess of \$215,000 for 1986; the staff adjustments reduced this by over \$144,409. Projecting the rate base into the 1987 test year reduced rate base by another \$6,653.

According to the auditors, much of applicant's claimed investment in the company was actually advanced by subdividers or consumers. Except to the extent that a utility repays such advances, it cannot earn a return on plant financed in this manner. According to staff, another large sum which applicant claimed as his own investment was actually contributed. A utility's owners cannot earn on plant contributed by others.

The following table compares applicant's and staff's estimates of depreciated rate base for 1986 and the staff's projection for 1987:

Rate Base

<u>Year</u>	<u>Item</u>	<u>Applicant Estimated</u>	<u>Staff Estimated</u>	<u>Applicant Exceeds Staff By</u>
1986	Average Plant	\$336,688*	\$314,097	\$ 22,592
	Average Depreciation Reserve	70,149	78,413	(8,264)
	Net Plant	266,539	235,683	30,856
	Less: Advances	52,477	89,154	(36,677)
	Contributions	-	83,416	(83,416)
	Plus: Working Cash	500	7,040	(6,540)
	Materials & Supplies	600	600	0
	Rate Base	215,162	70,753	144,409
			<u>Projected</u>	
1987	Average Plant	-	319,540	-
	Average Depreciation Reserve	-	85,980	-
	Net Plant	-	233,560	-
	Less: Advances	-	94,100	-
	Contributions	-	84,750	-
	Plus: Working Cash	-	8,790	-
	Materials & Supplies	-	600	-
	Rate Base	-	64,100	-

*Applicant used 1985 recorded figures for 1986 rate base.

C. Depreciation

The following table compares applicant's and staff's calculation of depreciation reserves. In addition to correcting the calculation error in defendant's beginning balance, staff also adjusted the beginning reserve to correct the balance as explained in the discussion of the audit. The amount of the adjustment was \$7,278.

As noted above, staff applied a 2.42% depreciation rate to the calculation of reserves and of amortization from 1985 on instead of applicant's 1%. The staff rate was also applied to a calculation of depreciation expense, producing a higher figure than applicant's.

Depreciation Reserve

<u>Year</u>	<u>Item</u>	<u>Applicant Estimated</u>	<u>Staff Audited</u>	<u>Applicant Exceeds Audited</u>
1985	Beginning-of-Year Balance	\$62,027*	\$74,835	-
	Depreciation Expense	3,437	5,348	(1,911)
	Amortization of Contributions	-	1,756	(1,756)
	Net Retirements	-	-	-
	End-of-Year Balance	78,272	81,939	(3,667)
	Audited Adjustments	-	(7,278)	7,278
	Adjusted End-of-Year Balance	78,272	74,661	3,611
	Average Depreciation Reserve	70,149	-	-
1986	Beginning-of-Year Balance	78,272	74,661	3,611
	Depreciation Expense	3,769	5,685	(1,916)
	Amortization of Contributions	-	1,819	(1,819)
	Net Retirements	-	-	-
	End-of-Year Balance	82,041	82,165	(124)
	Average Depreciation Reserve	80,156	78,413	1,743
			<u>Staff Estimated</u>	
1987	Beginning-of-Year Balance	-	82,165	-
	Depreciation Expense	-	5,817	-
	Amortization of Contributions	-	1,819	-
	Net Retirements	-	-	-
	End-of-Year Balance	-	89,801	-
	Average Depreciation Reserve	-	85,983	-

(Red Figures)

*Incorrect figure used by applicant.

D. Working Cash

Applicant claimed a working cash allowance of \$500 with no supporting calculation. The higher staff figure was developed using Standard Practice U-16.

V. Adopted RatesA. Rate of Return

Applicant did not request a specific rate of return. Staff pointed out that the normal range of rate of return for small water companies is 10.25% to 10.75%. Staff recommended that the Commission adopt the low end of the range, because of applicant's history of poor management and service problems.

We have adopted the staff's recommended rate of return.

B. Revenue Requirement and Rate Design

Applicant's operation, even under current rates, could be expected to generate a modest return, if he is able to control expenses, particularly those for purchased water and power. To increase his return to the adopted rate of return will require an increase of \$1,120 or 1.23% over the revenue at current rates.

The following table explains the level of rates adopted:

Adopted RatesEstimated Expenses and Revenues - Test Year 1987

<u>1987</u>	<u>Current Rates</u>	<u>Adopted Rates</u>
Revenue at Current Rates	\$91,200	
Increase		\$ 1,120
Revenue at Adopted Rates		92,320
Operating Expenses		74,140
Property Taxes		2,000
Payroll Taxes		1,810
Income Taxes	1,720	1,980
Depreciation Expenses		<u>5,820</u>
Total Expenses		85,750
Net Income		6,570
Rate Base		64,100
Rate of Return		10.25%

Pennsgrove DistrictComparison of RatesMetered Service

Service Charge:	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>
For 5/8 x 3/4-inch meter	\$ 3.00	\$ 3.00
For 3/4-inch meter	4.40	4.40
For 1-inch meter	6.00	6.00
For 1-1/2-inch meter	8.00	8.00
For 2-inch meter	10.80	10.80
For 3-inch meter	20.00	20.00
For 4-inch meter	27.20	27.20

Quantity Rates:

First 500 cu.ft., per 100 cu.ft.	1.02	1.09
Over 500 cu.ft., per 100 cu.ft.	1.26	1.26

Comparison of Bills*

<u>Usage</u> <u>100 Cu.Ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 3.00	\$ 3.00	\$ 0	0
5	8.10	8.45	0.35	4.3
10	14.40	14.75	0.35	2.4
15	20.70	21.05	0.35	1.7
17 (Avg.)	23.22	23.57	0.35	1.5
20	27.00	27.35	0.35	1.3
30	39.60	39.95	0.35	0.9
40	52.20	52.55	0.35	0.7
50	64.80	65.15	0.35	0.5
100	127.80	128.15	0.35	0.3

*For a 5/8 x 3/4 inch meter.

CORRECTION

**THIS DOCUMENT HAS
BEEN REPHOTOGRAPHED**

TO ASSURE

LEGIBILITY

V. Adopted RatesA. Rate of Return

Applicant did not request a specific rate of return. Staff pointed out that the normal range of rate of return for small water companies is 10.25% to 10.75%. Staff recommended that the Commission adopt the low end of the range, because of applicant's history of poor management and service problems.

We have adopted the staff's recommended rate of return.

B. Revenue Requirement and Rate Design

Applicant's operation, even under current rates, could be expected to generate a modest return, if he is able to control expenses, particularly those for purchased water and power. To increase his return to the adopted rate of return will require an increase of \$1,120 or 1.23% over the revenue at current rates.

The following table explains the level of rates adopted:

Adopted RatesEstimated Expenses and Revenues - Test Year 1987

<u>1987</u>	<u>Current Rates</u>	<u>Adopted Rates</u>
Revenue at Current Rates	\$91,200	
Increase		\$ 1,120
Revenue at Adopted Rates		92,320
Operating Expenses		74,140
Property Taxes		2,000
Payroll Taxes		1,810
Income Taxes	1,720	1,980
Depreciation Expenses		<u>5,820</u>
Total Expenses		85,750
Net Income		6,570
Rate Base		64,100
Rate of Return		10.25%

To fully conform to current Commission policy on rate design, (cf. D.86-05-064) applicant's rates should recover at least 50% of fixed costs from the service charges; no single class of customer should receive an increase significantly larger than other classes.

In this case, the revenue increase is so small that a revision of applicant's rates to meet policy standards is not possible. Consequently, we will adopt a rate design which increases the rate for consumption under 500 hundred cubic feet (Ccf) from \$1.02 to \$1.09 per Ccf in the Pennngrove district and from \$0.09 to \$0.13 in the Canon Manor system.² For most Pennngrove customers this will mean an increase of \$0.35 per month. In Canon Manor the increase for most customers will be \$0.20 per month.

C. Bill Comparison

The following tables compare rate and customer bills under present and staff's recommended rates for both Pennngrove and Canon Manor:

² None of the parties challenged the differential between the two systems; it is based on the difference between the cost of purchasing and the cost of pumping water.

Pennsgrove DistrictComparison of RatesMetered Service

Service Charge:	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>
For 5/8 x 3/4-inch meter	\$ 3.00	\$ 3.00
For 3/4-inch meter	4.40	4.40
For 1-inch meter	6.00	6.00
For 1-1/2-inch meter	8.00	8.00
For 2-inch meter	10.80	10.80
For 3-inch meter	20.00	20.00
For 4-inch meter	27.20	27.20

Quantity Rates:

First 500 cu.ft., per 100 cu.ft.	1.02	1.09
Over 500 cu.ft., per 100 cu.ft.	1.26	1.26

Comparison of Bills*

<u>Usage</u> <u>100 Cu.Ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 3.00	\$ 3.00	\$ 0	0
5	8.10	8.45	0.35	4.3
10	14.40	14.75	0.35	2.4
15	20.70	21.05	0.35	1.7
17 (Avg.)	23.22	23.57	0.35	1.5
20	27.00	27.35	0.35	1.3
30	39.60	39.95	3.35	0.9
40	52.20	52.55	0.35	0.7
50	64.80	65.15	0.35	0.5
100	127.80	128.15	0.35	0.3

*For a 5/8 x 3/4 inch meter.

Canon Manor DistrictComparison of RatesMetered Service

Service Charge:	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>
For 5/8 x 3/4-inch meter	\$ 3.00	\$ 3.00
For 3/4-inch meter	4.40	4.40
For 1-inch meter	6.00	6.00
For 1-1/2-inch meter	8.00	8.00
For 2-inch meter	10.80	10.80
For 3-inch meter	20.00	20.00
For 4-inch meter	27.20	27.20

Quantity Rates:

First 500 cu.ft., per 100 cu.ft.	0.09	0.13
Over 500 cu.ft., per 100 cu.ft.	0.60	0.60

Comparison of Bills*

<u>Usage</u> <u>100 Cu.Ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 3.00	\$ 3.00	\$ 0	0
5	3.45	3.65	0.20	5.8
10	6.45	6.65	0.20	3.1
15	9.45	9.65	0.20	2.1
20	12.45	12.65	0.20	1.6
20.2 (Avg.)	12.57	12.77	0.20	1.6
30	18.45	18.65	0.20	1.1
40	24.45	24.65	0.20	0.8
50	30.45	30.65	0.20	0.7
100	60.65	60.65	0.20	0.3

*For a 5/8 x 3/4 inch meter.

D. Should the Rate Increase be Conditional?

DHS, PWAC, and several customers recommended that any rate increase be withheld until applicant makes adequate progress toward replacing substandard plant. This might have been an effective tactic if the facts had justified a large increase. However, it is not likely that an increase of less than \$100 per

month will prove an effective motivator. We have therefore decided that the rate increase should be unconditional.

VI. Service and System Deficiencies

A. Service

Staff conducted its field survey during October 1986. Because of this timing, usage was low, and staff did not have an opportunity to observe the pressure and supply problems reported by consumers. However, staff did note that the utility had failed to replace runs of undersized pipe or to loop dead-end mains as ordered by D.90426.

In D.90426 the Commission ordered applicant to make improvements in his plant. Staff reports that only two of the seven ordered improvements have been made. While conceding that some pressure problems may be due to elevation, staff states that completing the improvements should solve most reported problems.

Undersized and dead-end mains may not be the cause of all pressure problems. There is some indication that deliveries of water to the Penngrove system from the Sonoma aqueduct are sometimes made at low pressures during periods of peak usage.

PWAC also complained that the utility had not complied with the Commission order in D.90426. It supported the staff recommendations.

DHS also has a list of improvements which, it concludes, are necessary for health and safety. It is particularly concerned with low pressure and leaks, which could introduce contaminants into the system. Like our staff, DHS reports that applicant is not responsive to that agency's demand for planning and executing system improvements.

Staff and DHS supported the testifying customers' complaints that there is no local phone number.

In addition, staff noted that there are a number of inoperative meters. This encourages water waste; it also deprives the utility of needed revenue. According to staff, applicant is replacing these as funds permit. Staff proposed that he be ordered to continue.

Staff substantiated customer complaints that applicant does not repair leaks quickly. Unrepaired leaks, beside damaging customers' property and roads, also waste funds.

B. Safe Drinking Water Loan

Customers seem willing to accept a substantial rate increase if they could be assured that the additional funds are earmarked for fixing the most pressing system deficiencies.

Staff recognizes that the amount of cash flow produced by the recommended rates will not support very large expenditures for replacing or looping mains. Accordingly, it has recommended that applicant be ordered to apply for an SDWBA loan.

If such a loan were granted, the funds would be earmarked for specified needs. A financial agent would be appointed by the Department of Water Resources to ensure that funds are not wasted. The Commission would allow applicant to collect a rate surcharge just large enough to offset the payments on the loan. Under our standard procedure the utility would not earn a return or collect depreciation on the added plant.

It appears that use of SDWBA financing would satisfy consumer recommendations that funds be earmarked for specific improvements and that progress be monitored. This form of financing would allow recommended improvements to be completed quickly. If on the other hand, we were to rely on internally generated funds, the completion of all projects would necessarily be deferred because of applicant's low cash flow. There is no other source of financing immediately available.

We will adopt staff's recommendation.

Applicant claims to have already applied for such a loan. We take official notice that he has merely done the preliminary groundwork to establish a priority. Unfortunately, the priority granted was so low that it was not realistic to proceed with a formal application.

Our order requires applicant to start over with a new proposal specifically designed to achieve a higher priority. We will expect DHS and staff to assist and to monitor applicant's efforts to comply. The order does not require applicant to proceed with a formal application if it becomes clear that he cannot achieve a priority high enough to justify a loan.

Our order also requires applicant to establish priorities and definite timetables for the replacement of each stretch of undersized mains. One timetable would assume that all of applicant's depreciation expense is reserved and applied to the cash outlays for replacing undersized mains and looping dead-end mains. The other would assume that an SDWBA loan is available.

C. Telephone

Applicant's customers should be able to call to report leaks, service outages, and to make inquiries without paying a toll charge. Applicant also should be required to answer consumer messages promptly, either in person or by an employee. We do not believe, however, that applicant's employee who lives in the Penn Grove area should necessarily be required to turn his own residential telephone into a business phone for his employer, as staff recommends.

Consequently, our order specifies the objective to be reached, leaving applicant to select the best method of accomplishing the goal. Applicant may respond by establishing an FEX line, installing a call-forwarding device, or by use of any other form of telephone service which meets the stated objectives.

Proposed Post-Hearing Intervention

A Petition to Intervention [sic] and to Reopen Proceedings was filed on October 14, 1987 by County of Sonoma (petitioner). Petitioner alleged that John Downey, dba Penngrove Water Company and Kenwood Village Water Company, owes petitioner a debt of as much as \$35,000. Assertedly, the debt was incurred for water purchased from the Sonoma County Water Agency for resale to utility customers.

The Petition stated that petitioner does not seek to delay processing of the rate case. It further stated that petitioner has commenced civil litigation to collect the debt, but doubts that such litigation will provide an adequate remedy because of "applicant's apparent financial condition." The Petition proposed that the Commission issue an interim decision, reserving jurisdiction to take further evidence on the question of the alleged debt.

The Petition did not contain points and authorities to show that the facts alleged support a claim justiciable by the Commission; nor did it purport to contain a complete statement of the relevant facts. It seemed to assume that additional facts would be developed by Commission investigation, and the appropriate legal theory, by staff argument. The Petition did not specify the relief sought.

The Petition was filed long after the submission date. The Petition was also filed too late to be considered in the Administrative Law Judge's Proposed Decision, but not too late to be considered as a comment on the Proposed Decision.

There was no response to the Petition. That being the case, there is no reason not to treat the petition as if it were a comment on the Proposed Decision. (Cf. Rules of Procedure, Rule 77.)

After consideration of the petition, we have concluded that this should be a final rather than an interim order. However,

there appears to be no reason why the proceeding cannot be reopened to determine whether or not the County is entitled to any relief in a supplemental order. Such relief would be prospective only, would address applicant's rates only, and would not address the debt between County and applicant which is a matter for the civil courts.

Findings of Fact

1. A depreciation rate of 1% is not realistic. Applicant's rates should be based on a 2.42% depreciation rate.
2. A rate of return in the range of 10.25 to 10.75% is reasonable.
3. Applicant is unable to account for 25% of water pumped or purchased.
4. Applicant's allowance for purchased water and pumping electricity should be set to encourage him to fix leaks and replace inoperative meters. With diligence, applicant should be able to reduce unaccounted for water to 8%. No balancing account should be required.
5. Applicant's rates should be based on staff's estimated revenues, expenses, and rate base for 1987.
6. Applicant's rate of return should be 10.25% because of poor management.
7. Applicant should be granted a rate increase which will increase his revenues by 1.23%; such an increase will permit him to earn 10.25% on rate base.
8. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.
9. The adopted rates are based on the adopted quantities set forth in Appendix B, which quantities are reasonable estimates for the test year.
10. The rate increase is not large enough to fully implement current rate design policy.
11. All of the rate increase should be imposed on the consumption block for consumption under 500 Ccf per month. The rate for the first 500 Ccf of consumption should be increased from

provide the capital needed to comply with this order and the requirements of DHS.

19. The staff's recommended adjustments to applicant's records are reasonable. The staff's recommendations to establish and maintain records are reasonable.

20. The difference in quantity rates between Canon Manor and Penngrove properly reflects the differences in cost between purchased and pumped water.

Conclusions of Law

1. Applicant should be unconditionally granted a rate increase sufficient to enable him to earn a fair return on proven rate base.

2. Applicant should be required to upgrade his system.

3. Applicant should be required to establish toll-free calling for customers and to answer all messages promptly.

4. Applicant should be required to fix all known leaks promptly and to replace inoperative meters.

5. No condition should be placed on his right to file for future increases; applicant should be placed on notice that action on general or offset increases can be delayed indefinitely if he has inadequate or incomplete records.

6. Applicant should be required to make the adjustments to books of account as ordered below, and to establish and maintain adequate financial records. Applicant should be ordered to refund the \$81 balancing account balance.

7. This decision should be a final decision. When this decision becomes effective, the application should be reopened to consider whether a supplementary order should be issued on petitioner County's petition.

CORRECTION

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there appears to be no reason why the proceeding cannot be reopened to determine whether or not the County is entitled to any relief in a supplemental order. Such relief would be prospective only, would address applicant's rates only, and would not address the debt between County and applicant which is a matter for the civil courts.

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11. All of the rate increase should be imposed on the consumption block for consumption under 500 Ccf per month. The rate for the first 500 Ccf of consumption should be increased from

\$1.02 to \$1.09 per Ccf in Penn Grove and from \$0.09 to \$0.13 in Canon Manor.

12. The rate increase provided for in this order is small. If delayed until applicant revamps his system, it will not provide a significant motivation to accelerate his efforts.

13. The rate increase should not be deferred pending system improvements.

14. Applicant should not be required to continue the balancing account for purchased water. The balance is \$81.

15. The improvements needed can be accomplished more quickly with an SDWBA loan. If financed with internally generated funds, completion will be deferred because applicant's cash flow is small.

16. Applicant's management is unsatisfactory because he:

- a. Has failed to eliminate unlooped and undersized mains.
- b. Failed to follow the Uniform System of Accounts and to keep adequate records.
- c. Allowed leaks to go unrepaired for too long.
- d. Failed to replace inoperative meters.
- e. Failed to establish a system which will ensure quick response to leak reports and other consumer telephone inquiries.
- f. Failed to comply with DHS requirements and orders, and with Commission orders.
- g. Failed to notify customers promptly of suspected water contamination.

17. Replacement of undersized mains and looping of dead-end mains are needed to afford adequate pressure. If adequate pressure is maintained, there is less chance of contamination.

18. It is reasonable and in the public interest to require applicant to file an application for SDWBA financing which would

provide the capital needed to comply with this order and the requirements of DHS.

19. The staff's recommended adjustments to applicant's records are reasonable. The staff's recommendations to establish and maintain records are reasonable.

20. The difference in quantity rates between Canon Manor and Penngrove properly reflects the differences in cost between purchased and pumped water.

Conclusions of Law

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7. This decision should be a final decision. When this decision becomes effective, the application should be reopened to consider whether a supplementary order should be issued on petitioner County's petition.

ORDER

IT IS ORDERED that:

1. John B. Downey operating under the business name of Pennngrove Water Company shall:

- a. File the revised rate schedules in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 5 days after filing.
- b. Apply a depreciation rate of 2.42% to the original cost of depreciable plant for the year 1987, and until review indicates otherwise.
- c. Review his depreciation rates at intervals of 10 years and whenever a major change in depreciable plant occurs.
- d. Submit the results of each review promptly to the Commission.
- e. Revise depreciation rates by:
 1. Subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant.
 2. Dividing the result by the estimated remaining life of plant.
 3. Dividing the quotient by the original cost of plant.

2. Applicant shall within 30 days after the effective date of this order establish a system which will enable his Pennngrove and Canon Manor customers to make telephone calls to a responsible company official without a toll charge. The telephone number for such calls shall be printed on customer's bills beginning in December 1987.

3. Applicant shall arrange to have all telephone calls to such numbers, which are received by an answering service or on an answering machine, returned promptly.

4. Applicant shall set up and maintain accounts as required by the Uniform System of Accounts. All accounts and financial documentation for the Canon Manor/Penngrove system shall be completely separate from private accounts and accounts for any other utility or nonutility business. If any items are allocated, that fact shall be recorded and the allocation method set forth. Applicant shall set up and maintain a general ledger, payroll records, a cash receipts journal, and a check register. The checking account for these two systems shall not be used for personal deposits or expenditures. Applicant shall set up and maintain records of contributed plant and amortization, and of advances and refunds.

5. Applicant shall adjust its accounts as follows:

- a. The \$750 recorded for a well site as intangible plant shall be excluded due to the sale of the tract of land.
- b. The well recorded as \$7,122 entered in 1976 shall be classed as nonutility plant until placed in service.
- c. The Water Mains account as of December 31, 1986 shall be reduced by the amount of \$24,571.
- d. The Transportation account as of December 31, 1986 shall be reduced to exclude the acquisitions in 1973 and 1985 and the retirement in 1977.
- e. The Other Equipment account shall be reduced to a zero balance as of December 31, 1986.
- f. The Accumulated Depreciation of Water Plant as of December 31, 1986 shall be adjusted to \$82,165.

- g. The Material and Supply account shall be decreased by \$600 and shall reflect a zero balance as of December 31, 1986.
- h. Advances for Construction as of December 31, 1986 should be adjusted to \$83,472.
- i. A Contributions in Aid of Construction account shall be established with a balance as of December 31, 1986 of \$94,101. Amortization of Contributions should be adjusted to \$8,442.

6. Applicant shall perform the following system modifications:

- a. Replace approximately 1,700 feet of 2-inch temporary main above ground on Petaluma Hill Road with a 6-inch main.
- b. Replace approximately 900 feet of 2-inch main on Oak Street between Woodward Avenue and Adobe Road and 1-inch main on Ronsheimer Road with at least a 6-inch main.
- c. Complete loop of Adobe Road, Grove Street, Woodward Avenue, and Oak Street; replace 1-inch and 2-inch mains on Grove Street with 6-inch and install 6-inch mains on Adobe Road between Oak Street and Grove Street. (Approximately 1,500 feet of mains to be installed.)
- d. Complete loop of East Street, Grove Street, Woodward Avenue, and Oak Street; replace 1-inch and 2-inch undersized mains on East Street and Grove Street. (Approximately 1,200 feet of mains to be installed.)
- e. Continue the 6-inch main on Dutch Lane from Brand Lane to Petaluma Hill Road. (Approximately 1,600 feet of main to be installed.)
- f. Replace the main between Ronsheimer Road and Goodwin Avenue along the Old Redwood Highway with 8-inch mains.

7. Applicant shall make an SDWBA application designed to fund only the improvements ordered herein and those required by DHS. Applicant shall cooperate with staff and DHS to draw up an application designed to achieve the highest possible priority. Applicant may use the advice letter process to delete from the loan application one or more of the projects ordered herein, if he can demonstrate that such omission will increase the priority enough to make it probable that a loan will be granted.

8. Applicant shall draw up a timetable and priority list for meeting the system improvements ordered herein and those required by DHS. There shall be two alternative schedules one assuming SDWBA financing and one assuming financing by internally generated funds and/or advances or contributions only. The timetables shall be filed with Commission Advisory and Compliance Division and served on all parties to this proceeding, not later than 60 days after the effective date. ✓

9. Applicant shall perform the improvements in accordance with the schedule for internal financing until or unless he is granted an SDWBA loan. In that event, he shall construct according to the timetable for SDWBA-financed improvements.

10. Applicant shall repair leaks and repair or replace nonfunctioning meters without unreasonable delay. He shall prepare and retain a log indicating the date when the company was informed of each leak or nonfunctioning meter, the date of repair or replacement, and the reasons for delay. This log shall be open to inspection by any appearance herein.

11. Applicant shall refund \$81 in purchased water overcollection, in equal shares to each current customer except those served by the Canon Manor system.

12. Applicant is placed on notice that failure to maintain accurate reliable books of account may delay processing of any future rate increase.

13. On the effective date of this order, the application is reopened for further consideration of the matters raised by the petition of the County of Sonoma.


This order becomes effective 30 days from today.

Dated NOV 25 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 Weiss, Executive Director

APPENDIX A
Page 1

ADOPTED RATES

Penngrove Water Company

Schedule No. 1-P

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Penngrove and vicinity, Sonoma County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 500 cu.ft., per 100 cu.ft.....	\$ 1.09	(I)
Over 500 cu.ft., per 100 cu.ft.....	1.26	

Service Charge:

For 5/8 x 3/4-inch meter.....	3.00
For 3/4-inch meter.....	4.40
For 1-inch meter.....	6.00
For 1-1/2-inch meter.....	8.00
For 2-inch meter.....	10.80
For 3-inch meter.....	20.00
For 4-inch meter.....	27.20

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.

APPENDIX A
Page 2

ADOPTED RATES

Penngrove Water Company

Schedule No. 1-C.M.

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Canon Manor and vicinity, Sonoma County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 500 cu.ft., per 100 cu.ft.....	\$ 0.13	(I)
Over 500 cu.ft., per 100 cu.ft.....	0.60	

Service Charge:

For 5/8 x 3/4-inch meter.....	3.00
For 3/4-inch meter.....	4.40
For 1-inch meter.....	6.00
For 1-1/2-inch meter.....	8.00
For 2-inch meter.....	10.80
For 3-inch meter.....	20.00
For 4-inch meter.....	27.20

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(END OF APPENDIX A)

APPENDIX B

Page 1

ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Penngrove 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%

	<u>Penngrove District</u>	<u>Canon Manor District</u>	<u>Total</u>
<u>Expenses Test Year 1987</u>			
1. Purchased Power (Electric)			
Pacific Gas and Electric Co.			
Total Cost	-	\$ 3,480	\$ 3,480
Schedule and Date	-	A-1, 3/87	-
\$/kWh Used	-	\$0.09042	-
kWh Used	-	37,658	37,658
Power Cost	-	\$ 3,405	\$ 3,405
Customer Charge	-	\$ 75	\$ 75
2. Purchased Water	\$39,220	-	\$39,220
Volume in Acre-Feet	146	-	146
Cost per Acre-Foot	\$268.63	-	\$268.63
3. Pump Tax - Replenishment Tax	-	-	-
4. Payroll and Employee Benefits			
Oper. and Maint. Payroll			\$ 6,100
Admin. & General Salaries			14,340
Total			<u>\$20,440</u>
Payroll Taxes			\$ 1,810
5. Ad Valorem Taxes			\$ 2,000
Tax Rate			1.414%
Assessed Value			\$141,493
<u>Metered Sales Used to Design</u>			
<u>Rates (Ccf)</u>	58,781	15,516	74,297
<u>Connections Used to Design</u>			
<u>Rates</u>			
5/8 x 3/4	281	64	345
1"	4		4
2"	3		3
Total			<u>352</u>

APPENDIX B
Page 2

Pennngrove 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	\$92,320	\$92,320
Operating Expenses	74,140	74,140
Property Tax	2,000	2,000
Payroll Tax	1,810	1,810
Interest Expense	0	0
Tax Depreciation	5,820	5,820
State Income Tax	-	821
Subtotal Deduction	<u>83,770</u>	<u>84,591</u>
State Taxable Income	8,550	-
State Income Tax @ 9.6%	821	-
Federal Taxable Income	-	7,729
Federal Income Tax @ 15%	-	1,159
Total Income Tax	-	1,980

(END OF APPENDIX B)

V. Adopted RatesA. Rate of Return

Applicant did not request a specific rate of return. Staff pointed out that the normal range of rate of return for small water companies is 10.25% to 10.75%. Staff recommended that the Commission adopt the low end of the range, because of applicant's history of poor management and service problems.

We have adopted the staff's recommended rate of return.

B. Revenue Requirement and Rate Design

Applicant's operation, even under current rates, could be expected to generate a modest return, if he is able to control expenses, particularly those for purchased water and power. To increase his return to the adopted rate of return will require an increase of \$1,120 or 1.23% over the revenue at current rates.

The following table explains the level of rates adopted:

<u>Adopted Rates</u>		
<u>Estimated Expenses and Revenues - Test Year 1987</u>		
<u>1987</u>	<u>Current Rates</u>	<u>Adopted Rates</u>
Revenue at Current Rates	\$91,200	
Increase (before Income Taxes)		\$ 1,120
Revenue at Adopted Rates		92,320
Operating Expenses		74,140
Property Taxes		2,000
Payroll Taxes		1,810
Income Taxes	1,720	1,980
Depreciation Expenses		<u>5,820</u>
Total Expenses		85,750
Net Income		6,570
Rate Base		64,100
Rate of Return		10.25%
After Tax Increase		860

To fully conform to current Commission policy on rate design, (cf. D.86-05-064) applicant's rates should recover at least 50% of fixed costs from the service charges; no single class of customer should receive an increase significantly larger than other classes.

In this case, the revenue increase is so small that a revision of applicant's rates to meet policy standards is not possible. Consequently, we will adopt a rate design which increases the rate for consumption under 500 hundred cubic feet (Ccf) from \$1.02 to \$1.09 per Ccf in the Penn Grove district and from \$0.09 to \$0.13 in the Canon Manor system.² For most Penn Grove customers this will mean an increase of \$0.35 per month. In Canon Manor the increase for most customers will be \$0.20 per month.

C. Bill Comparison

The following tables compare rate and customer bills under present and staff's recommended rates for both Penn Grove and Canon Manor:

² None of the parties challenged the differential between the two systems; it is based on the difference between the cost of purchasing and the cost of pumping water.

Findings of Fact

1. A depreciation rate of 1% is not realistic. Applicant's rates should be based on a 2.42% depreciation rate.
2. A rate of return in the range of 10.25 to 10.75% is reasonable.
3. Applicant is unable to account for 25% of water pumped or purchased.
4. Applicant's allowance for purchased water and pumping electricity should be set to encourage him to fix leaks and replace inoperative meters. With diligence, applicant should be able to reduce unaccounted for water to 8%. No balancing account should be required.
5. Applicant's rates should be based on staff's estimated revenues, expenses, and rate base for 1987.
6. Applicant's rate of return should be 10.25% because of poor management.
7. Applicant should be granted a rate increase which will increase his revenues by 1.23%; such an increase will permit him to earn 10.25% on rate base.
8. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.
9. The adopted rates are based on the adopted quantities set forth in Appendix B, which quantities are reasonable estimates for the test year.
10. The rate increase is not large enough to fully implement current rate design policy.
11. All of the rate increase should be imposed on the consumption block for consumption under 500 Ccf per month. The rate for the first 500 Ccf of consumption should be increased from \$1.02 to \$1.09 per Ccf in Penn Grove and from \$0.09 to \$0.13 in Canon Manor.

12. The rate increase provided for in this order is small. If delayed until applicant revamps his system, it will not provide a significant motivation to accelerate his efforts.

13. The rate increase should not be deferred pending system improvements.

14. Applicant should not be required to continue the balancing account for purchased water. The balance is \$81.

15. The improvements needed can be accomplished more quickly with an SDWBA loan. If financed with internally generated funds, completion will be deferred because applicant's cash flow is small.

16. Applicant's management is unsatisfactory because he:

- a. Has failed to eliminate unlooped and undersized mains.
- b. Failed to follow the Uniform System of Accounts and to keep adequate records.
- c. Allowed leaks to go unrepaired for too long.
- d. Failed to replace inoperative meters.
- e. Failed to establish a system which will ensure quick response to leak reports and other consumer telephone inquiries.
- f. Failed to comply with DHS requirements and orders, and with Commission orders.
- g. Failed to notify customers promptly of suspected water contamination.

17. Replacement of undersized mains and looping of dead-end mains are needed to afford adequate pressure. If adequate pressure is maintained, there is less chance of contamination.

18. It is reasonable and in the public interest to require applicant to file an application for SDWBA financing which would provide the capital needed to comply with this order and the requirements of DHS.

there appears to be no reason why the proceeding cannot be reopened to determine whether or not the County is entitled to any relief in a supplemental order.

Findings of Fact

1. A depreciation rate of 1% is not realistic. Applicant's rates should be based on a 2.42% depreciation rate.
2. A rate of return in the range of 10.25 to 10.75% is reasonable.
3. Applicant is unable to account for 25% of water pumped or purchased.
4. Applicant's allowance for purchased water and pumping electricity should be set to encourage him to fix leaks and replace inoperative meters. With diligence, applicant should be able to reduce unaccounted for water to 8%. No balancing account should be required.
5. Applicant's rates should be based on staff's estimated revenues, expenses, and rate base for 1987.
6. Applicant's rate of return should be 10.25% because of poor management.
7. Applicant should be granted a rate increase which will increase his revenues by 1.23%; such an increase will permit him to earn 10.25% on rate base.
8. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.
9. The adopted rates are based on the adopted quantities set forth in Appendix B, which quantities are reasonable estimates for the test year.
10. The rate increase is not large enough to fully implement current rate design policy.
11. All of the rate increase should be imposed on the consumption block for consumption under 500 Ccf per month. The rate for the first 500 Ccf of consumption should be increased from

19. The staff's recommended adjustments to applicant's records are reasonable. The staff's recommendations to establish and maintain records are reasonable.

20. The difference in quantity rates between Canon Manor and Penngrove properly reflects the differences in cost between purchased and pumped water.

Conclusions of Law

1. Applicant should be unconditionally granted a rate increase sufficient to enable him to earn a fair return on proven rate base.

2. Applicant should be required to upgrade his system.

3. Applicant should be required to establish toll-free calling for customers and to answer all messages promptly.

4. Applicant shall be required to fix all known leaks promptly and to replace inoperative meters.

5. No condition should be placed on his right to file for future increases; applicant should be placed on notice that action on general or offset increases can be delayed indefinitely if he has inadequate or incomplete records.

6. Applicant should be required to make the adjustments to books of account as ordered below, and to establish and maintain adequate financial records. Applicant should be ordered to refund the \$81 balancing account balance.

ORDER

IT IS ORDERED that:

1. John B. Downey operating under the business name of Penngrove Water Company shall:

- a. File the revised rate schedules in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their

\$1.02 to \$1.09 per Ccf in Penngrove and from \$0.09 to \$0.13 in Canon Manor.

12. The rate increase provided for in this order is small. If delayed until applicant revamps his system, it will not provide a significant motivation to accelerate his efforts.

13. The rate increase should not be deferred pending system improvements.

14. Applicant should not be required to continue the balancing account for purchased water. The balance is \$81.

15. The improvements needed can be accomplished more quickly with an SDWBA loan. If financed with internally generated funds, completion will be deferred because applicant's cash flow is small.

16. Applicant's management is unsatisfactory because he:

- a. Has failed to eliminate unlooped and undersized mains.
- b. Failed to follow the Uniform System of Accounts and to keep adequate records.
- c. Allowed leaks to go unrepaired for too long.
- d. Failed to replace inoperative meters.
- e. Failed to establish a system which will ensure quick response to leak reports and other consumer telephone inquiries.
- f. Failed to comply with DHS requirements and orders, and with Commission orders.
- g. Failed to notify customers promptly of suspected water contamination.

17. Replacement of undersized mains and looping of dead-end mains are needed to afford adequate pressure. If adequate pressure is maintained, there is less chance of contamination.

18. It is reasonable and in the public interest to require applicant to file an application for SDWBA financing which would

effective date, which shall be 5 days after filing.

- b. Apply a depreciation rate of 2.42% to the original cost of depreciable plant for the year 1987, and until review indicates otherwise.
- c. Review his depreciation rates at intervals of 10 years and whenever a major change in depreciable plant occurs.
- d. Submit the results of each review promptly to the Commission.
- e. Revise depreciation rates by:
 1. Subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant.
 2. Dividing the result by the estimated remaining life of plant.
 3. Dividing the quotient by the original cost of plant.

2. Applicant shall within 30 days after the effective date of this order establish a system which will enable his Penngrove and Canon Manor customers to make telephone calls to a responsible company official without a toll charge. The telephone number for such calls shall be printed on customer's bills beginning in December 1987.

3. Applicant shall arrange to have all telephone calls to such numbers, which are received by an answering service or on an answering machine, returned promptly.

4. Applicant shall set up and maintain accounts as required by the Uniform System of Accounts. All accounts and financial documentation for the Canon Manor/Penngrove system shall be completely separate from private accounts and accounts for any other utility or nonutility business. If any items are allocated, that fact shall be recorded and the allocation method set forth.

provide the capital needed to comply with this order and the requirements of DHS.

19. The staff's recommended adjustments to applicant's records are reasonable. The staff's recommendations to establish and maintain records are reasonable.

20. The difference in quantity rates between Canon Manor and Penngrove properly reflects the differences in cost between purchased and pumped water.

Conclusions of Law

1. Applicant should be unconditionally granted a rate increase sufficient to enable him to earn a fair return on proven rate base.

2. Applicant should be required to upgrade his system.

3. Applicant should be required to establish toll-free calling for customers and to answer all messages promptly.

4. Applicant shall be required to fix all known leaks promptly and to replace inoperative meters.

5. No condition should be placed on his right to file for future increases; applicant should be placed on notice that action on general or offset increases can be delayed indefinitely if he has inadequate or incomplete records.

6. Applicant should be required to make the adjustments to books of account as ordered below, and to establish and maintain adequate financial records. Applicant should be ordered to refund the \$81 balancing account balance.

7. This decision should be a final decision. When this decision becomes effective, the application should be reopened to consider whether a supplementary order should be issued on petitioner County's petition.

Applicant shall set up and maintain a general ledger, payroll records, a cash receipts journal, and a check register. The checking account for these two systems shall not be used for personal deposits or expenditures. Applicant shall set up and maintain records of contributed plant and amortization, and of advances and refunds.

5. Applicant shall adjust its accounts as follows:

- a. The \$750 recorded for a well site as intangible plant shall be excluded due to the sale of the tract of land.
- b. The well recorded as \$7,122 entered in 1976 shall be classed as nonutility plant until placed in service.
- c. The Water Mains account as of December 31, 1986 shall be reduced by the amount of \$24,571.
- d. The Transportation account as of December 31, 1986 shall be reduced to exclude the acquisitions in 1973 and 1985 and the retirement in 1977.
- e. The Other Equipment account shall be reduced to a zero balance as of December 31, 1986.
- f. The Accumulated Depreciation of Water Plant as of December 31, 1986 shall be adjusted to \$82,165.
- g. The Material and Supply account shall be decreased by \$600 and shall reflect a zero balance as of December 31, 1986.
- h. Advances for Construction as of December 31, 1986 should be adjusted to \$83,472.
- i. A Contributions in Aid of Construction account shall be established with a balance as of December 31, 1986 of \$94,101. Amortization of Contributions should be adjusted to \$8,442.

ORDER

IT IS ORDERED that:

1. John B. Downey operating under the business name of Pennngrove Water Company shall:

- a. File the revised rate schedules in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 3 days after filing.
- b. Apply a depreciation rate of 2.42% to the original cost of depreciable plant for the year 1987, and until review indicates otherwise.
- c. Review his depreciation rates at intervals of 10 years and whenever a major change in depreciable plant occurs.
- d. Submit the results of each review promptly to the Commission.
- e. Revise depreciation rates by:
 1. Subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant.
 2. Dividing the result by the estimated remaining life of plant.
 3. Dividing the quotient by the original cost of plant.

2. Applicant shall within 30 days after the effective date of this order establish a system which will enable his Pennngrove and Canon Manor customers to make telephone calls to a responsible company official without a toll charge. The telephone number for such calls shall be printed on customer's bills beginning in December 1987.

6. Applicant shall perform the following system modifications:

- a. Replace approximately 1,700 feet of 2-inch temporary main above ground on Petaluma Hill Road with a 6-inch main.
- b. Replace approximately 900 feet of 2-inch main on Oak Street between Woodward Avenue and Adobe Road and 1-inch main on Ronsheimer Road with at least a 6-inch main.
- c. Complete loop of Adobe Road, Grove Street, Woodward Avenue, and Oak Street; replace 1-inch and 2-inch mains on Grove Street with 6-inch and install 6-inch mains on Adobe Road between Oak Street and Grove Street. (Approximately 1,500 feet of mains to be installed.)
- d. Complete loop of East Street, Grove Street, Woodward Avenue, and Oak Street; replace 1-inch and 2-inch undersized mains on East Street and Grove Street. (Approximately 1,200 feet of mains to be installed.)
- e. Continue the 6-inch main on Dutch Lane from Brand Lane to Petaluma Hill Road. (Approximately 1,600 feet of main to be installed.)
- f. Replace the main between Ronsheimer Road and Goodwin Avenue along the Old Redwood Highway with 8-inch mains.

7. Applicant shall make an SDWBA application designed to fund only the improvements ordered herein and those required by DHS. Applicant shall cooperate with staff and DHS to draw up an application designed to achieve the highest possible priority. Applicant may use the advice letter process to delete from the loan application one or more of the projects ordered herein, if he can demonstrate that such omission will increase the priority enough to make it probable that a loan will be granted.

8. Applicant shall draw up a timetable and priority list for meeting the system improvements ordered herein and those required by DHS. There shall be two alternative schedules one assuming SDWBA financing and one assuming financing by internally generated funds and/or advances or contributions only. The timetables shall be filed with Evaluation and Compliance Division and served on all parties to this proceeding, not later than 60 days after the effective date.

9. Applicant shall perform the improvements in accordance with the schedule for internal financing until or unless he is granted an SDWBA loan. In that event, he shall construct according to the timetable for SDWBA-financed improvements.

10. Applicant shall repair leaks and repair or replace nonfunctioning meters without unreasonable delay. He shall prepare and retain a log indicating the date when the company was informed of each leak or nonfunctioning meter, the date of repair or replacement, and the reasons for delay. This log shall be open to inspection by any appearance herein.

11. Applicant shall refund \$81 in purchased water overcollection, in equal shares to each current customer except those served by the Canon Manor system.

12. Applicant is placed on notice that failure to maintain accurate reliable books of account may delay processing of any future rate increase.

This order becomes effective 30 days from today.

Dated _____, at San Francisco, California.

7. Applicant shall make an SDWBA application designed to fund only the improvements ordered herein and those required by DHS. Applicant shall cooperate with staff and DHS to draw up an application designed to achieve the highest possible priority. Applicant may use the advice letter process to delete from the loan application one or more of the projects ordered herein, if he can demonstrate that such omission will increase the priority enough to make it probable that a loan will be granted.

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