

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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RESOLUTION NO. W-3302

EVALUATION & COMPLIANCE DIVISION
BRANCH/SECTION: Water Utilities
DATE: March 5, 1986_____
Director_____
Numerical File_____
Alphabetical File_____
Accounting OfficerR E S O L U T I O NNORTH GUALALA WATER COMPANY, INC. (NGWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$35,740 OR 28.1% ADDITIONAL ANNUAL REVENUE.

By draft advice letter received by the Water Utilities Branch (Branch) on August 28, 1985, NGWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$40,840 or 31.9%. NGWC estimates that 1985 revenues of \$128,054 at present rates would increase to \$168,894 at proposed rates and provide a rate of return on rate base of 9.4%. NGWC currently serves about 658 metered customers in both Gualala and Anchor Bay, Mendocino County.

The present rates have been in effect since January 11, 1984, pursuant to Resolution No. W-3163, dated January 5, 1984, which authorized a general rate increase.

The Branch made an independent analysis of NGWC's summary of earnings. Appendix A shows NGWC's and Branch's estimates of the summary of earnings at present, requested and adopted rates. The differences between NGWC's and the Branch's estimates of the summary of earnings are in operating expenses and rate base.

The differences in the estimates of operating expenses are in purchased power, materials, employee benefits, and depreciation expense.

The Branch's estimate for purchased power is \$25,080, whereas NGWC's estimate is \$24,210. The Branch's estimate is higher because it used the latest twelve months actual recorded kilowatt-hour use data taken from NGWC's power bills to estimate the purchased power. NGWC made its estimate based on less current data than that used by the Branch.

NGWC's estimate of materials is \$22,500 versus the Branch's estimate of \$8,100. The difference results from NGWC improperly including in its estimate \$14,400 relating to main replacement which should have been charged to capital and not expensed.

The Branch's higher estimate in employee benefits reflects later data. The premiums on a group health insurance policy were recently increased.

The Branch's higher depreciation expense is due to the transfer of materials for main replacement from the expense accounts to the capital accounts as explained above in the discussion on materials.

The difference in the estimates of rate base are in plant, depreciation reserve, and working cash.

The major reasons for the Branch's higher estimate is due to the Branch transferring a portion of materials expense to plant as discussed previously and a \$16,000 estimating difference for a new filter plant. The Branch's estimate for the filter plant of \$56,000 is higher than NGWC's \$40,000 estimate because of later information which was not available to NGWC at the time its estimate was prepared. The filter plant is addressed later in the discussion on service.

The differences in depreciation reserve is due to differences in the plant estimates. Working cash estimates differ because of the estimating differences in operating expenses.

NGWC's requested increase would result in a 9.4% rate of return. This is below the rate of return range (10.75% to 11.25%) recommended by the Financial Branch of the Evaluation and Compliance Division for small water utilities. The Branch recommends the range midpoint rate of return of 11.0% for NGWC and believes this amount is reasonable. This rate of return on rate base will not result in NGWC realizing more revenue from the increased rates than was requested.

NGWC was informed about the Branch's differing view of expenses, rate base, and rate of return and has stated that it accepts the Branch's estimates.

A notice of the proposed rate increase was mailed to all customers on September 17, 1985. Nineteen customers wrote letters protesting the magnitude of the proposed increase. One customer wrote to state his approval and a petition containing 24 customer signatures requested that the Commission examine carefully the real necessity and basis for granting an increase at this time. A proposed letter of response to the customers is shown in Appendix E.

On November 14 and 15, 1985, the Branch engineer made a field inspection of NGWC's system and interviewed customers. All above ground facilities including a recently added new 30,000 gallon tank were inspected and found in good conditions. The new tank will provide peaking capacity during times of high system demand. In addition, NGWC acting under directions of DHS has purchased and is installing a new filter plant. This plant is to treat spring water and should be on line in March 1986. However, even with these system improvements, it can be seen that many older pipes are inadequate in size. NGWC realizes this, and is annually replacing about 1,000 feet of old mains to eliminate dead ends and to increase flow rates where restriction are most likely to occur in the future.

During the field investigation the only customer complaint pertained to turbidity caused by the occasional use of an unfiltered source of water. Apart from this turbidity complaint, no other customer complained about the quality of service. Customers interviewed in the field were specifically asked to recall low pressures or supply shortages. They all assured the Branch engineer that there was always good pressure with no outages as far as they could remember. The Branch concludes that service is satisfactory. There are no Commission orders requiring system improvements, nor are there significant service problems requiring corrective action.

NGWC's present rates consist of a service charge and a multi-block quantity rate structure. The Branch's recommended rate structure is in conformance with the Commission's model rate structure with a service charge, 300 cubic feet lifeline-block, and an inverted tail block. Monthly bills for a typical full time residential customer will increase from \$15.48 to \$19.84. A comparison of present and the Branch recommended rates is shown in Appendix C.

NGWC carries in its tariff book rate Schedule No. 2L, Limited Flat Rate Service for a lumber mill which has ceased to operate. NGWC has requested, and the Branch concurs with, the withdrawal of this schedule.

The Branch recommends that the Commission authorize an increase of \$35,740 or 28.1%, which would increase estimated annual revenue from \$128,054 at present rates to \$163,794 at recommended rates contained in Appendix B. This increase provides for an 11.0% rate of return on rate base.

The Commission's opinion, after investigation by the Water Utilities Branch is that:

- a. The Branch's recommended Summary of Earnings (attached as Appendix A) is reasonable and should be adopted.
- b. Rate Schedule No. 2L, Limited Flat Rate Service should be discontinued.
- c. The rates recommended by the Branch (attached as Appendix B) are reasonable and should be adopted.
- d. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.

THE COMMISSION FINDS that the increased rates hereby authorized are justified and the present rates are, for the future, unjust and unreasonable.

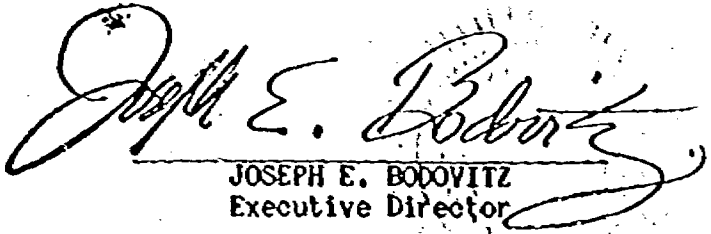
IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for North Gualala Water Company, Inc. to file an advice letter incorporating the Summary of Earnings and revised rate Schedule No. 1 attached to this resolution as Appendices A and B, and concurrently to cancel the presently effective rate Schedules Nos. 1 and 2L. Such filing shall comply with General Order 96-A.
2. The effective date of the revised rate schedules shall be the date of filing.

3. This Resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 5, 1986. The following Commissioners approved it:

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
FREDERICK R. DUDA
Commissioners


JOSEPH E. BODOVITZ
Executive Director

APPENDIX A

NORTH GUALALA WATER COMPANY, INC.

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :		: Requested :		
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue					
Metered	\$127,130	\$167,970	\$127,130	\$167,970	\$162,870
Others	924	924	924	924	924
Total Revenues	<u>128,054</u>	<u>168,894</u>	<u>128,054</u>	<u>168,894</u>	<u>163,794</u>
Operating Expenses					
Source of Supply Exp.	600	600	600	600	600
Pumping Power	24,210	24,210	25,080	25,080	25,080
Materials	22,500	22,500	8,100	8,100	8,100
Labor	25,500	25,500	25,500	25,500	25,500
Management Salaries	11,200	11,200	11,200	11,200	11,200
Office Supplies & Exp.	3,500	3,500	3,500	3,500	3,500
Insurance	12,018	12,018	12,018	12,018	12,018
Account., Legal, etc.	1,700	1,700	1,700	1,700	1,700
General Expenses	2,630	2,630	2,630	2,630	2,630
Vehicle Expense	7,800	7,800	7,800	7,800	7,800
Office & Storage Rentals	2,400	2,400	2,400	2,400	2,400
Employees Benefits	<u>5,880</u>	<u>5,880</u>	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>
Total Expenses	119,938	119,938	108,528	108,528	108,528
Depreciation	11,205	11,205	11,720	11,720	11,720
Property Taxes	5,970	5,970	5,970	5,970	5,970
Other Taxes	4,260	4,260	4,260	4,260	4,260
Income Taxes	<u>200</u>	<u>7,175</u>	<u>200</u>	<u>9,190</u>	<u>7,870</u>
Total Deductions	\$141,573	\$148,548	\$130,678	\$139,668	\$138,348
Net Revenue	(\$ 13,519)	\$ 20,346	(\$ 2,624)	\$ 29,226	\$ 25,446
Average Plant	749,740	749,740	770,900	770,900	770,900
Average Depr. Res.	315,990	315,990	316,240	316,240	316,240
Net Plant	433,749	433,749	454,660	454,600	454,660
Less: Advances	19,820	19,820	19,820	19,820	19,820
Contributions	219,890	219,890	219,890	219,890	219,890
Plus: Working Cash	20,100	20,100	15,040	15,040	15,040
M&S	1,200	1,200	1,200	1,200	1,200
Rate Base	215,340	215,340	231,190	231,190	231,190
Rate of Return	Loss	9.4%	Loss	12.6%	11.0%

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Gualala and vicinity, located approximately 15 miles south of Point Arena, Mendocino County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 7.24	(I)
For 3/4-inch meter	14.60	
For 1-inch meter	19.40	
For 1-1/2-inch meter	27.30	
For 2-inch meter	35.20	
For 3-inch meter	66.70	
For 4-inch meter	90.00	(I)

Quantity Rates

First 300 cu.ft., per 100 cu.ft.	1.40	(I)
Over 300 cu.ft., per 100 cu.ft.	2.10	(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.

APPENDIX C

COMPARISON OF RATES

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

<u>METERED SERVICE</u>	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 5.65	\$ 7.24
For 3/4-inch meter	11.40	14.60
For 1-inch meter	15.20	19.40
For 1-1/2-inch meter	21.30	27.30
For 2-inch meter	27.50	35.20
For 3-inch meter	52.00	66.70
For 4-inch meter	70.00	90.00
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.	1.09	1.40
Over 300 cu.ft., per 100 cu.ft.	1.64	2.10

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

<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	\$ 5.65	\$ 7.24	\$ 1.59	28.1
3	8.92	11.44	2.52	28.2
5	12.20	15.64	3.44	28.2
10	20.40	26.14	5.74	28.1
20	36.80	47.14	10.34	28.1
30	53.20	68.14	14.94	28.1
50	86.00	110.14	24.14	28.1
100	168.00	215.14	47.14	28.1

APPENDIX D
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ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: North Gualala Water Company, Inc.

Federal Tax Rates: 15%, 18%
State Tax Rate: 9.6%

Expenses

1. <u>Purchased Power (Electric)</u>	
Pacific Gas and Electric Company	
Total Cost	\$25,080
kWh	243,400
Eff. Sch. Date	5/7/85
\$/kWh used	0.10304
2. <u>Payroll</u>	
Employee Labor	\$25,500
Office Salaries	<u>11,200</u>
Total	36,700
Payroll Taxes	4,260
3. <u>Ad Valorem Taxes:</u>	\$5,970
Tax Rate	1.004%
Assessed Value	594,620

Metered Water Sales Used to Design Rates:

<u>Range - Ccf</u>	<u>Usage - Ccf</u>
Block 1 (Lifeline) 0-3	16,073
Block 2 >3	<u>37,829</u>
	53,562

APPENDIX D
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ADOPTED QUANTITIES

Customers and Usage

	<u>No.</u> <u>1986</u>	<u>Usage KCoF</u> <u>1986</u>	<u>Avg. Usage</u> <u>Ccf/Yr. 1986</u>
Commercial Metered	658	53,562	81.4
Public Fire Protection	<u>11</u>		
	<u>669</u>		

ADOPTED SERVICES BY METER SIZE
(all classes)

<u>Meter Size</u>	<u>1986</u>
5/8 x 3/4"	646
3/4"	1
1"	7
1-1/2"	3
2"	1
3"	-
4"	-
Total	<u>658</u>

ADOPTED TAX CALCULATIONS

<u>Line No.</u>	<u>Item</u>	<u>1986</u> <u>Adopted Rates</u>	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$163,794	\$163,794
2.	Operating Expenses	108,528	108,528
3.	Taxes Other Than Income	10,230	10,230
4.	Tax Depreciation	11,720	11,720
5.	Interest	-	-
6.	State Income Tax	-	<u>3,198</u>
7.	Sub-total Deduction	130,478	133,676
8.	State Taxable Income	33,316	-
9.	State Income Tax (9.6%)	3,198	-
10.	Federal Table Income	-	30,118
11.	Federal Income Tax (15%, 18%)	-	<u>4,671</u>
12.	Total Income Tax	-	7,869
13.	USE		7,870

(END OF APPENDIX D)

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 31.9% RATE INCREASE BY NORTH GUALALA WATER COMPANY, INC.

Dear Customer:

After considering all the factors presented, the Commission has authorized a 28.1% general rate increase for North Gualala Water Company, Inc. For the typical full time customer this will mean an increase in the monthly bill from \$15.48 to \$19.84.

Nineteen customers wrote to the Commission to protest the magnitude of the proposed 31.9% increase, and 24 customers signed a petition to request a thorough investigation of the proposed increase. The Commission staff made an analysis of the operations of this utility, made adjustments to the utility's estimates and recommended to the Commission that an increase of 28.1% be authorized. The major reasons for the increase are to cover the cost associated with a new filter plant being added to the system to improve water quality and to cover the increases in the cost of electrical power.

In establishing rates, the Commission's role is twofold. The rates to the ratepayer must be kept as low as possible, and at the same time, set rates so as to cover operating expenses and provide a fair return on the utility's investments in its water system. You may be assured that the utility's request was thoroughly reviewed and evaluated by the Commission staff before this change in rate was granted.

We appreciate that you took the time to provide your opinions on the proposed rate increase. If you have any questions please call Ernst Knolle at (415) 557-1903.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch