

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for:

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 _____ to Executive Director

RESOLUTION NO. W-3304

EVALUATION & COMPLIANCE DIVISION
 BRANCH/SECTION: Water Utilities
 DATE: March 19, 1986

_____ Director
 _____ Numerical File
 _____ Alphabetical File
 _____ Accounting Officer

R E S O L U T I O N

HILLCREST WATER CO., INC. (HWC). ORDER AUTHORIZING
 A GENERAL RATE INCREASE PRODUCING \$44,461 OR 16.1%
 ADDITIONAL REVENUE.

HWC by draft advice letter received by the Water Utilities Branch (Branch) on August 12, 1985, 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 \$110,049 or 40%. HWC estimates that 1985 gross revenue of \$276,109 at present rates would increase to about \$386,158 at proposed rates and the rate of return on rate base would increase from a loss to 10%.

HWC serves about 1,796 flat rate customers in four tariff areas in suburban Yuba City, Sutter County. Three of the tariff areas are located about two miles southwest of Yuba City and are closely oriented. Two of these tariff areas have systems that are interconnected and the third is anticipated to be interconnected. These three tariff areas account for about 95% of the customers and exhibit considerable growth. The fourth tariff area known as New Helvetia is located two miles northwest of Yuba City. The New Helvetia area has 82 customers, a separate water system, and little potential for growth.

The present rates have been in effect since July 12, 1982, pursuant to Resolution No. W-2998, which authorized a general rate increase.

HWC's states that the primary purpose of its requested rate increase is to cover increased operating costs anticipated for the new water treatment and filtration plants that were recently constructed and added to the system. The new facilities were constructed with a \$1,540,346 loan provided under the California Safe Drinking Water Bond Act (SDWBA). The loan was used to construct treatment plants, storage tanks, water mains and various appurtenances. The new facilities were necessitated by high mineral content in the water which required treatment and filtration. System revisions also incorporate new fire capacity requirements. The authority to borrow the funds and to add surcharges to pay for the loan was granted by Decision (D.) 83-07-004, dated July 20, 1983. The surcharges, which add to the existing monthly

flat rate bill of \$11.80, are different for each of H&C's tariff areas and range from \$4.80 to \$14.45 per month (see Appendix B for details). The level of the surcharge for a particular tariff area depends on the cost of SD&BA financed improvements and the number of customers in that area. These surcharges are not affected by this rate increase request. D.83-97-004 explicitly states that the surcharges do not cover operating expenses that might be incurred by the new facilities, and that rate relief to cover these expenses be sought by the advice letter procedure.

H&C prepared the request for this rate increase in early 1985, prior to the commencement (mid 1985) of operation of the new filtration facilities. The request was based on estimates of the potential increased costs of operating the new facilities.

The Branch made an independent analysis of H&C's summary of earnings. Appendix A shows H&C's and the Branch's estimates of the summary of earnings at present, requested and adopted rates. The differences between H&C'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, employee labor, materials, contract work, insurance, vehicle expenses, office and storage rental, uncollectibles, and payroll and property taxes. The Branch had available actual operating records covering about four months of use of the new filtration facilities, which was not available to H&C at the time its estimates were prepared. The differences between H&C's and the Branch's estimates in operating expenses are due primarily to lower than anticipated actual operating expenses for the new plant.

The difference in the estimates of purchased power expense is due to different methods of estimating. H&C's estimate of \$93,365 for purchased power is based on increasing the 1984 recorded amount by an amount estimated to cover power costs related to the new filtration facilities. The Branch's corresponding estimate of \$54,832 is based on: normalizing historical power consumption to account for weather influences on customer usage; later data, not available to H&C, reflecting actual operation of the new facilities; and the most recent power rates. The Branch believes its estimate is more reasonable because it incorporates current operating conditions, whereas H&C's estimate does not.

The difference in employee labor expense of \$6,000 is due to the Branch having later operating data from the new filtration facilities. H&C estimated that one additional employee was needed to operate it. Based on actual operating records, the Branch found that only part-time help was needed.

H&C's estimate of \$5,270 for materials was based on an earlier estimate of the cost of chemicals to be used for water treatment. The actual operating records indicate that the anticipated need for certain chemical treatment did not materialize. Based on this, the Branch's estimate of materials is \$4,300.

H&C estimated contract work at \$5,900. This included a potential expense of \$4,800 for computer consulting that was to be amortized over three years. However, this expense was not incurred. This lowered the expense estimate for contract work by \$1,600 per year. There was also a \$100 per year error in H&C's calculation of this item. The Branch's estimate of \$4,200 reflects these two adjustments.

The difference in insurance expense is due to differences in the estimates of general insurance and employee benefits (health and workers compensation insurance). H&C estimated general insurance expense at \$12,416. Actual billing was \$11,306, the figure used by the Branch for its estimate. H&C's estimate of employee benefits is \$18,314 versus the Branch's estimate of \$16,274. The difference in employee benefits estimates is due to differences in labor requirement estimates discussed earlier. H&C's estimate of total insurance expense is \$30,730 ($\$2,416 + 18,314$), the Branch's estimate is \$27,580 ($\$11,306 + 16,274$).

For vehicle expense, H&C's estimate included \$13,550 for full time usage of four vehicles. The Branch's review of H&C's records indicated that the vehicles are used in part for non-utility operations. Upon questioning by the Branch, H&C provided a revised estimate of \$8,187. The Branch believes this later estimate is reasonable.

H&C's rental expense estimate is \$13,640 versus the Branch's estimate of \$8,640. The difference of \$5,000 relates to rental on land on which water system facilities are located. The owner of H&C stated that he is listed as the deeded owner of the land and his accountant suggested that he should receive rent for the land. The Branch found that the land is already accounted for in H&C's estimates of rate base and property taxes and believes that rental on this land should be excluded from ratemaking.

H&C did not include an estimate for uncollectibles (revenue billed less revenue collected). While relatively low, the Branch did determine from H&C's records that the average uncollectible rates for the last three recorded years (period since last rate increase) was 0.16% of revenues. The Branch notes that for ratemaking the Commission treats uncollectibles as an expense in the summary of earnings and recommends that its estimate of \$513 for uncollectibles be adopted.

H&C's estimate of property taxes is \$24,141. The Branch notes that the implied tax rate in H&C's estimate is about 1.7% which is much higher than the approximate 1% rates seen since the passage of Proposition 13. Relying on information about H&C's tax assessment and latest tax rate obtained from the Sutter County Tax Assessor's office, the Branch's estimate of property taxes is \$15,090 and is based on a tax rate of 1.01911%.

The difference in payroll taxes is due to the Branch's lower employee labor estimate discussed previously.

The difference in depreciation expense estimates results from H&C including land in its depreciation calculation. Because land is not depreciable the Branch excluded it from its estimate.

The difference in rate base is small, less than 1%, and is due to differences in the estimates of depreciation reserve, advances for construction, and working cash. Depreciation reserve estimates differ because H&C, as discussed previously, included land, which is not depreciable, in its depreciation calculations. The difference in the estimates of advances results from a small discrepancy between the level of recorded advances in H&C's workpapers submitted with its filing and in its 1984 annual report to the Commission. Working cash estimates differ because of the difference in operating expense estimates.

H&C's summary of earnings submitted with its rate increase request shows a rate of return of 10% on rate base. 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 maximum rate of return of 11.25%. The Branch believes that this level of earning is in order in recognition of H&C's good service. Although the rate of return recommended is higher than that requested by H&C, it does not result in more revenue than was requested.

H&C was informed about the Branch's differing views on 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 each customer on September 14, 1985. Fifty letters, and one petition containing 90 signatures, protesting the magnitude of the rate increase were received by the Commission. Most replies cited the 1983 addition of the SDWBA loan repayment surcharge as a rate increase and indicated that any increase now, so soon after that increase, is unreasonable. The letters also indicated that water quality had not improved since they began paying for the new filtration facilities, citing bad odor, taste, and color. Five letters and the petition cited the separate issue that they (the customers in the New Helvetia tariff area) were not served by the new filtration facilities and therefore, should not be subject to the increase in operating expenses resulting from them.

With respect to the filtration facilities financed by the SDWBA loan, the Department of Health Services (DHS) stated that the construction was performed in a very neat, efficient, and economical manner; and that the system has proven to be very effective in removing the high concentrations of iron and manganese from the water. However, the treatment of the water did change its flavor for some customers. According to DHS the start up of the new water treatment facilities also caused some discoloration of water already in the mains and the periodic release or sluffing off of accumulated minerals from the insides of existing mains. This problem (on a diminishing basis) can last as long as a year, but is normally cleared in two to three months. H&C is periodically flushing the mains to minimize this problem.

The Branch reviewed the objection to paying for an increase attributed to the filtration facilities that do not serve the New Helvetia tariff area. These customers are isolated by several miles from the remainder H&C's customers, the other systems and the new filtration facilities. This district has 82 customers compared to the 1,714 customers in the other three closely oriented districts. The Branch found that the New Helvetia area's higher (10%) power consumption per customer and the added service cost due to its separateness from the main system approximately offset the operational costs for the filtration facilities serving the other areas. For this reason, the Branch believes there should be no cost-of-service differential between the New Helvetia area rates and the rates for the other areas.

The Branch made a field investigation of the company in November 1985. H&C's plant facilities were inspected and the records examined. Pressures were checked and customers interviewed. Numerous discussions were held with DHS about the new filtration facilities, their costs and the resulting service improvement. The Branch concludes that service is good. There are no outstanding Commission orders requiring system improvements.

The Branch has drafted a letter of reply to the customers who responded. It explains the Commission's action and will be mailed after the resolution is signed. It is attached as Exhibit E.

H&C proposes to meter several apartment complexes. H&C, which has no metered customers, has a metered rate schedule but the Branch believes this schedule is unreliable because H&C can not determine its unit cost for water or average use per customer since it does not meter its water production. It is the Branch's view that based on a rough estimate the rates in the metered schedule are too low and probably will have to be adjusted upward if they are going to cover the actual cost to serve. The Branch recommends against metering the apartment complexes until H&C has metered its production and can get a better handle on unit cost and customer consumption. H&C, which has an ample water supply, has indicated that it may begin metering its water production. When this occurs the appropriate adjustments to the metered rate schedule can be made and H&C can again bring this matter to the Commission for consideration under the advice letter procedure. Even with its faults, the Branch believes that the metered rate schedule should be retained until it is updated because it can be used for limited miscellaneous purposes such as during the construction phase of new development and in those situations where a customer is found to be wasting water.

Consistent with past Commission policy, the Branch's recommended percent increase to H&C's flat and metered rate schedules is approximately equal to the overall system increase or 16.1%. The monthly bill for the typical flat rate residential customer (excluding surcharge) will increase from \$11.80 to \$13.70 or \$1.90. A comparison of present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$44,461 or 16.1% which would increase estimated annual revenue from \$276,109 at present rates to \$320,570 at recommended rates. This increase provides for an 11.25% rate of return on rate base.

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

- a. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
- b. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
- c. 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 that the present rates are, for the future, unjust and unreasonable.

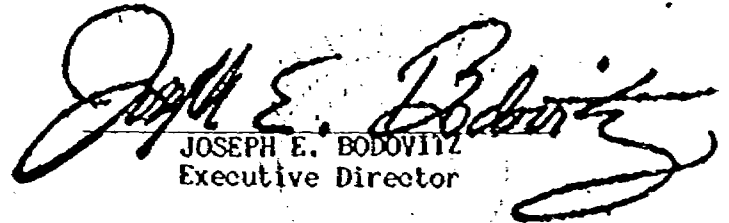
IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for Hillcrest Water Co., Inc. to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, and concurrently to cancel the presently effective rate Schedules Nos. 1 and 2R. 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 19, 1986. The following Commissioners approved it:


JOSEPH E. BODOVITZ
Executive Director

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

APPENDIX A

HILLCREST WATER CO., INC.

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue	\$276,109	\$386,158	\$276,109	\$386,158	\$320,570
<u>Operating Expenses</u>					
Source of Supply	27,800	27,800	27,800	27,800	27,800
Purchased Power	93,365	93,365	54,832	54,832	54,832
Employee Labor	43,680	43,680	37,680	37,680	37,680
Materials	5,270	5,270	4,300	4,300	4,300
Contract Work	5,900	5,900	4,200	4,200	4,200
Office Salaries	28,200	28,200	28,200	28,200	28,200
Management Salaries	18,000	18,000	18,000	18,000	18,000
Office Supply	13,278	13,278	13,278	13,278	13,278
Insurance	30,730	30,730	27,580	27,580	27,580
Acct., Legal	5,000	5,000	5,000	5,000	5,000
General Expenses	14,190	14,190	14,190	14,190	14,190
Vehicle Expense	13,550	13,550	8,187	8,187	8,187
Office & Stor. Rentals	13,640	13,640	8,640	8,640	8,640
Uncollectibles	0	0	442	618	513
Total Expenses	312,603	312,603	252,329	252,505	252,400
Depreciation	22,321	22,321	21,483	21,483	21,483
Property Tax	25,141	25,141	15,090	15,090	15,090
Payroll Tax	8,899	8,899	8,518	8,518	8,518
Other Taxes	480	480	480	480	480
Income Taxes	200	200	200	23,376	3,835
Total Deductions	369,644	369,644	321,451	321,451	301,806
Net Revenue	(93,535)	16,514	(21,991)	64,707	18,764
<u>Rate Base</u>					
Average Plant	991,973	991,973	991,973	991,973	991,973
Average Depr. Res.	352,621	352,621	352,202	352,202	352,202
Net Plant	639,352	639,352	639,771	639,771	639,771
Less: Advances	302,973	302,973	302,143	302,143	302,143
Contributions	176,769	176,769	176,769	176,769	176,769
Plus: Working Cash	5,620	5,620	5,930	5,930	5,930
Rate Base	165,231	165,231	166,789	166,789	166,789
Rate of Return	Loss	10%	Loss	38.80%	11.25%

APPENDIX B
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Schedule No. 1

GENERAL METERED SERVICE
Region I (East Hillcrest Area)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Region I known as the East Hillcrest area, and vicinity, located approximately two miles southwest of Yuba City, Sutter County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month Charge</u>		<u>Per Meter Per Month Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 4.06	(I)	\$6.35
For 3/4-inch meter	4.47	!	6.35
For 1-inch meter	6.10	!	6.35
For 1-1/2-inch meter	8.13	!	6.35
For 2-inch meter	10.97	(I)	6.35

Quantity Rates

First 500 cu.ft., per 100 cu.ft. ...	0.35	(I)
Next 500 cu.ft., per 100 cu.ft. ...	0.46	!
Over 1,000 cu.ft., per 100 cu.ft. ...	0.64	(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.

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-07-004.

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Schedule No. 1

GENERAL METERED SERVICE
Region II (Westgate Area)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Region II known as the Westgate area, and vicinity, located approximately two miles southwest of Yuba City, Sutter County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month Charge</u>		<u>Per Meter Per Month Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 4.06	(I)	\$4.80
For 3/4-inch meter	4.47	!	4.80
For 1-inch meter	6.10	!	4.80
For 1-1/2-inch meter	8.13	!	4.80
For 2-inch meter	10.97	(I)	4.80

Quantity Rates

First 500 cu.ft., per 100 cu.ft. ...	0.35	(I)
Next 500 cu.ft., per 100 cu.ft. ...	0.46	!
Over 1,000 cu.ft., per 100 cu.ft. ...	0.64	(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.

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Schedule No. 1

GENERAL METERED SERVICE
Region III (West Hillcrest Area)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Region III known as the West Hillcrest area, and vicinity, located approximately two miles southwest of Yuba City, Sutter County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month Charge</u>		<u>Per Meter Per Month Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 4.06	(I)	\$14.45
For 3/4-inch meter	4.47	!	14.45
For 1-inch meter	6.10	!	14.45
For 1-1/2-inch meter	8.13	!	14.45
For 2-inch meter	10.97	(I)	14.45

Quantity Rates

First 500 cu.ft., per 100 cu.ft. ...	0.35	(I)
Next 500 cu.ft., per 100 cu.ft. ...	0.46	!
Over 1,000 cu.ft., per 100 cu.ft. ...	0.64	(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.

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-07-004.

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Schedule No. 1

GENERAL METERED SERVICE
Region IV (New Helvetia Area)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Region IV known as the New Helvetia area, and vicinity, located approximately two miles northwest of Yuba City, Sutter County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month Charge</u>		<u>Per Meter Per Month Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 4.06	(I)	\$14.05
For 3/4-inch meter	4.47	!	14.05
For 1-inch meter	6.10	!	14.05
For 1-1/2-inch meter	8.13	!	14.05
For 2-inch meter	10.97	(I)	14.05

Quantity Rates

First 500 cu.ft., per 100 cu.ft. ...	0.35	(I)
Next 500 cu.ft., per 100 cu.ft. ...	0.46	!
Over 1,000 cu.ft., per 100 cu.ft. ...	0.64	(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.

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-07-004.

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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE
Region I (East Hillcrest Area)

APPLICABILITY

Applicable to all flat rate residential and commercial water service.

TERRITORY

Region I known as the East Hillcrest area, and vicinity, located approximately two miles southwest of Yuba City, Sutter County.

RATES

	<u>Per Service Connection Per Month Charge</u>	<u>Per Service Connection Per Month Surcharge</u>
For a single-family residential unit including premises, not to exceed 13,000 square feet	\$13.70 (1)	\$6.35
Each additional unit on the same premises	6.62	3.05
For each swimming pool	2.21	1.02
For each 100 sq. ft. of premises in excess of 13,000 square feet	0.07 (1)	.03

SPECIAL CONDITIONS

The above flat rate applies to service connections not larger than one-inch in diameter.

FLAT RATE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$13.70 per service connection, per month. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-07-004.

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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE
Region II (Westgate Area)

APPLICABILITY

Applicable to all flat rate residential and commercial water service.

TERRITORY

Region II known as the Westgate area, and vicinity, located approximately two miles southwest of Yuba City, Sutter County.

RATES

	<u>Per Service Connection Per Month Charge</u>	<u>Per Service Connection Per Month Surcharge</u>
For a single-family residential unit including premises, not to exceed 13,000 square feet	\$13.70 (I)	\$4.80
Each additional unit on the same premises	6.62 ;	2.30
For each swimming pool	2.21 ;	.77
For each 100 sq. ft. of premises in excess of 13,000 square feet	0.07 (I)	.02

SPECIAL CONDITIONS

The above flat rate applies to service connections not larger than one-inch in diameter.

FLAT RATE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$13.70 per service connection, per month. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-07-004.

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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE
Region III (West Hillcrest Area)

APPLICABILITY

Applicable to all flat rate residential and commercial water service.

TERRITORY

Region III known as the West Hillcrest area, and vicinity, located approximately two miles southwest of Yuba City, Sutter County.

RATES

	<u>Per Service Connection Per Month Charge</u>	<u>Per Service Connection Per Month Surcharge</u>
For a single-family residential unit including premises, not to exceed 13,000 square feet	\$13.70 (1)	\$14.45
Each additional unit on the same premises	6.62	6.94
For each swimming pool	2.21	2.31
For each 100 sq. ft. of premises in excess of 13,000 square feet	0.07 (1)	.07

SPECIAL CONDITIONS

The above flat rate applies to service connections not larger than one-inch in diameter.

FLAT RATE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$13.70 per service connection, per month. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-07-004.

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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE
Region IV (New Helvetia Area)

APPLICABILITY

Applicable to all flat rate residential and commercial water service.

TERRITORY

Region I known as the New Helvetia area, and vicinity, located approximately two miles northwest of Yuba City, Sutter County.

RATES

	<u>Per Service Connection Per Month Charge</u>	<u>Per Service Connection Per Month Surcharge</u>
For a single-family residential unit including premises, not to exceed 13,000 square feet	\$13.70 (1)	\$14.05
Each additional unit on the same premises	6.62	6.74
For each swimming pool	2.21	2.25
For each 100 sq. ft. of premises in excess of 13,000 square feet	0.07 (1)	.07

SPECIAL CONDITIONS

The above flat rate applies to service connections not larger than one-inch in diameter.

FLAT RATE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$13.70 per service connection, per month. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-07-004.

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

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

<u>METERED SERVICE</u> (No meters currently in service)	<u>Per Meter Per Month</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
<u>Service Charge:</u>			
For 5/8 x 3/4-inch meter	\$3.50	\$ 4.06	16.0
For 3/4-inch meter	3.85	4.47	16.1
For 1-inch meter	5.25	6.10	16.2
For 1-1/2-inch meter	7.00	8.13	16.1
For 2-inch meter	9.45	10.97	16.1
<u>Quantity Rates:</u>			
First 500 cu.ft., or less	0.30	0.35	16.7
Next 500 cu.ft., per 100 cu.ft. ..	0.40	0.46	15.0
Over 1,000 cu.ft., per 100 cu.ft. ..	0.55	0.64	16.4

FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
Basic (for residential unit including premises not exceeding 13,000 sq.ft.) .	\$ 11.80	\$ 13.70	16.1
Swimming Pool	1.90	2.21	16.3
Unit (each additional residential unit on premises)	5.70	6.62	16.1
100 sq.ft. (of premises in excess of 13,000 sq.ft.)	0.06	0.07	16.7
<u>Composite:</u>			
Basic+pool+20 units on 20,000 sq.ft. premises	131.90	153.21	16.2

APPENDIX D

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ADOPTED QUANTITIES
(1985 Test Year)

Name of Company: Hillcrest Water Co., Inc.

Net-to-Gross Multiplier:	1.3045
Federal Tax Rates:	15.0%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0.0%
Business License:	0.0%
Uncollectible Rates:	0.16%

Expenses Test Year 1985

- Purchased Power (Electric)
Pacific Gas and Electric Company

Total Cost (\$)	\$54,832
kwh	567,208
Eff. Sch. Date	8/1/85
\$/kwh used	\$0.09667
Rate Schedule	A-1

- Purchased Water: None
- Pump Tax-Replenishment Tax: None
- Payroll and Employee Benefits:

Operation and Maintenance	incl.
Administrative & General	incl.
Total	\$100,154
- Ad Valorem Taxes:

Tax Rate	\$ 15,090
Assessed Value	1.01911%
	\$1,480,692

Customers per Service Area 1985

1. East Hillcrest	824
2. New Helvetia	620
3. Westgate	270
4. West Hillcrest	82
Total	1,796

APPENDIX D
Page 2

ADOPTED QUANTITIES
(1985 Test Year)

Service Connections

1. Meter Size: none	
2. Metered Water Sales Used to Design Rates: none	
3. Flat Rate Service Connections:	<u>1985</u>
Basic connections	1,796
Additions:	
Added units	108
Swimming pools	326
Excess square footage	925,200
Total connections	<u>1,796</u>

ADOPTED TAX CALCULATIONS

Line No.	Item	1985 Adopted Rates	
		CCFT	FIT
1.	Operating Revenues	\$320,570	\$320,570
2.	Operating Expenses	252,400	252,400
3.	Taxes Other Than Income	24,088	24,088
4.	Tax Depreciation	27,524	27,524
5.	Interest	0	0
6.	State Income Tax	-	1,590
7.	Sub-total Deduction	304,012	305,602
8.	State Taxable Income	16,558	
9.	State Income Tax	1,590	-
10.	Federal Table Income	-	14,968
11.	Federal Income Tax	-	2,245
12.	Total Income Tax	1,590	3,835

(END OF APPENDIX D)

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 40% RATE INCREASE BY THE HILLCREST WATER COMPANY, INC. (HWC)

After considering all factors presented, the Commission has authorized HWC a general rate increase producing 16.1% additional revenue. The major factor affecting the rate increase is inflation. The monthly bill for the flat rate residential customer will increase from \$11.80 to \$13.70 or \$1.90. These rates do not include the Safe Drinking Water Bond Act (SDWBA) loan surcharge (shown as the DWR surcharge on your water bills).

Fifty letters, and one petition containing 90 signatures, protesting the magnitude of the rate increase, were received by the Commission. Most replies cited the 1983 addition of the SDWBA loan repayment surcharge as a rate increase and indicated that this increase was too much too soon. The letters also indicated that water quality had not improved since they began paying for the new plant, citing bad odor, taste, and color. Five letters and the petition cited the separate issue that the customers in the New Helvetia area were not served by the new filtration facilities and therefore, should not be obligated for the cost of operation of the new plants.

With respect to the filtration facilities financed by the SDWBA loan, the Department of Health Services (DHS) stated that the construction was performed in a very neat, efficient, and economical manner; and that the system has proven to be very effective in removing the high concentrations of iron and manganese from the water. However, the treatment of the water did change its flavor for some customers. According to DHS the start up of the new water treatment facilities also caused some discoloration of water already in the mains and the periodic release or sluffing off of accumulated minerals from the insides of existing mains. This problem (on a diminishing basis) can last as long as a year, but is normally cleared in two to three months. HWC is periodically flushing the mains to minimize this problem.

The Commission reviewed the objection to paying for an increase attributed to the filtration facilities that do not serve the New Helvetia area. These customers are isolated by several miles from the remainder of HWC's customers, the other systems, and the new filtration facilities. The New Helvetia area has 82 customers compared to the approximately 1,700 customers in HWC's closely oriented districts. The Commission found that the average amount of power required to serve a customer in the New Helvetia area is higher than in the other areas served by HWC. In addition, the cost to serve this area is higher due to its distance from the main body of HWC's other customers. The Commission believes that the costs associated with the filtration facilities not in New Helvetia's area are offset by the higher cost to serve this area.

We appreciate your writing to us. If you have any further question, please contact Wayne Koerting at (415) 557-0544.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch