



The Branch's estimate of purchased power is lower than CSW's. This difference is due to the Branch's use of the latest power rates.

CSW's estimate of total payroll is \$20,420 and includes employee labor, office salary, and management salary. CSW's estimate is 38.9% higher than the \$14,700 total payroll amount adopted in the 1981 general rate case and represents an average annual increase of about 7%. In light of negligible annual customer growth (less than 1%) and the moderating trend in inflation since the last rate case, the Branch considers CSW's estimate to be excessive. The Branch's estimate of \$17,780 is 20.0% above the amount last authorized in 1981 and is based on labor inflation factors found reasonable by the Research Branch of the Evaluation and Compliance Division (ECD). The Branch spread its total payroll estimate into the employee labor, office salary, and management salary categories using the same ratios proposed by CSW.

CSW's estimate of contract work is higher than the Branch's and is an average of the recorded amounts for the two years, 1983 and 1984. The Branch's estimate is based on the average of recorded expenses for five years, 1980 through 1984, adjusted for inflation by the previously mentioned labor inflation factors. CSW's recorded expenses have fluctuated considerably over the last several years and the Branch believes that the use of five years of data provides a broader base on which to make a more reliable estimate.

CSW's estimate of office supplies is higher than the Branch's and is an average of the last two years expenses. The difference results from the Branch's use of a five year average (1980 - 1984) adjusted for inflation using the non-labor escalation factors found reasonable by ECD's Research Branch. CSW's recorded offices supplies, similar to its recorded contract work, has varied significantly over the last several years. For this reason, the Branch believes its use of five years data provides a more reliable estimate than CSW's use of two years of data.

CSW's estimate of accounting and legal expenses is \$3,640 versus the Branch's estimate of \$1,100. The difference is due to the Branch's different view of certain legal and consultant fees included in CSW's estimate. The \$2,140 in legal fees, excluded by the Branch for ratemaking, relate to CSW's incorporation and to the recent SDWBA loan. The legal fees for incorporation are already included as intangible plant in accordance with proper Commission accounting procedures. The intangible plant account contains all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation, and like other plant is included in the rate base. The legal fees related to the SDWBA loan have already been accounted for in the loan. CSW's estimate also included an ongoing consultant fee of \$600 for filing non-rate-case advice letters. The Branch reviewed the record of such filings by CSW over the past several years and notes that on the average about three are made per year. These filings are simple and should require no more than a few hours to prepare. The Branch estimates that \$200 is a reasonable amount for this activity.

The difference in general expense estimates is due to the Branch excluding from its estimate the costs of publications which are not related to CSW's operations and adjusting employees benefits to reflect its lower estimate of total payroll.

CSW's estimate for office rental is \$3,600 and is the same amount as recorded in the annual reports for 1983 and 1984. CSW's office is a single room in the owner's home. The Branch believes that \$3,000 represents a reasonable rental and is comparable to the rent paid for similar space in Marin County.

Balancing accounts for payroll, ad valorem taxes and purchased power were ordered by the Commission to be established for CSW in Resolution No. W-2627, effective May 1, 1980. Such accounts are established in conformance with Section 792.5 of the Public Utility Code and are to provide a mechanism for accommodating increases or decreases in expense items which are beyond the control of a utility. Because CSW is an owner-operated small utility, with most of its labor costs paid to the owner and within the control of the utility, the Branch believes the labor balancing account should be discontinued. The Branch's estimated undercollection for this account is \$1,630. The Branch recommends that it be amortized over three years, which is the time between general rate case filings. For ratemaking, the Branch allocated the \$1,630 to the three payroll accounts, employee labor, office salary, and management salary using the same ratios proposed by CSW.

The difference in depreciation expense estimates is due to CSW improperly accounting for contributions in its estimate.

Payroll tax estimates differ because of the differences in the estimates of total payroll.

The difference in the rate base estimates is due to differences in the estimates of plant, depreciation reserve, advances, contributions and working cash.

For its plant estimate, CSW used an incorrect beginning-of-year balance for January 1, 1985 which differed from the correct amount shown in its annual report. This fact along with the Branch's use of later data on plant additions and retirements accounts for the difference in plant estimates.

CSW's estimate of depreciation reserve differs from the Branch's estimate as a result of differences in the estimate of plant and the error in the depreciation calculation related to contributed plant, discussed previously.

CSW's estimate of advances is \$8,030 versus the Branch's estimate of \$1,140. This large difference is attributable to CSW failing to exclude certain advances that had been converted to contributions in 1985.

The difference in contributions is due to an error by CSW in calculating the amount of depreciation that should be charged against contributions.

The difference in working cash is due to differences in the estimated expenses.

CSW requested a rate of return of 12.51%. This is higher than the 10.75% to 11.25% rate normally recommended by ECD's Finance Branch. CSW's request was

based on the fact that it had obtained two high-interest loans for operating funds and needed a higher rate of return to pay for these loans. The Finance Branch has reviewed CSW's capitalization and has recommended a rate of return of 12.41%.

CSW was informed about the Branch's differing view of revenues, 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 August 22, 1985. Two responses were received. One customer objected to the frequency of rate increases. The other objected to the recent SDWBA loan because system improvements are paid for by the customers but become the property of the utility.

The Branch drafted a letter of reply to both customers who wrote to the Commission about this increase. It explains the Commission's action and will be mailed after this resolution is signed. The draft letter is attached as Appendix E.

Field investigations were made on April 11 and August 14, 1985 by a member of the Branch. Visible portions of the water system were inspected, pressures checked, customers and company employees interviewed, and methods of operations checked. The investigation indicated that CSW's system is in compliance with the requirements of the Commission's General Order 103, Rules Governing Water Service, and that service is satisfactory. There are no outstanding Commission orders requiring system improvements. According to the California Department of Health Services there are no current water quality problems.

CSW's rate structure conforms to the Commission's model rate structure of a service charge, a 300 cubic-foot first block and an inverted tail block. The increase to the service charge and the quantity blocks are approximately equal to the overall system increase of 22.30%. Monthly bills for a typical residential customer will increase from \$15.67 to \$19.15 without the SDWBA loan surcharge and from \$23.47 to \$26.95 with the surcharge. A comparison of the present and the Branch recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$10,020 or 22.30% which would increase the estimated annual revenue from \$44,930 at present rates to \$54,950 at recommended rates contained in Appendix B.

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 adopted.
- c. The quantities (Appendix D) used to develop the Branch's estimate are reasonable and should be adopted.
- d. CSW should discontinue its payroll balancing account.

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

IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for Coast Springs Water Company to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently to cancel the presently effective rate Schedule No. 1A. Such filing shall comply with General Order 96-A. ✓

2. Coast Springs Water Company shall discontinue its payroll balancing account. ✓

3. The effective date of the revised rate schedules shall be the date of filing.

4. This Resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on May 7, 1986. The following Commissioners approved it: ✓

Howard A. Sarasohn ✓

Acting Executive Director ✓

DONALD VIAL  
President

VICTOR CALVO  
PRISCILLA C. GREW  
FREDERICK R. DUDA  
STANLEY W. HULETT  
Commissioners

APPENDIX A

COAST SPRINGS WATER COMPANY

SUMMARY OF EARNINGS  
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue	\$43,860	\$66,000	\$44,930	\$67,610	\$54,950
<u>Operating Expenses</u>					
Purchased Power	2,280	2,280	1,900	1,900	1,900
Employee Labor	1,750	1,750	1,577	1,577	1,577
O&M Materials	2,100	2,100	2,100	2,100	2,100
Contract Work	2,920	2,920	2,600	2,600	2,600
Office Salary	4,120	4,120	3,689	3,689	3,689
Mgmt. Salary	14,550	14,550	13,057	13,057	13,057
Office Supplies	1,760	1,760	1,640	1,640	1,640
Insurance	2,950	2,950	2,950	2,950	2,950
Acctg., Legal	3,640	3,640	1,100	1,100	1,100
General Expenses	1,440	1,440	1,110	1,110	1,110
Vehicles	1,440	1,440	1,440	1,440	1,440
Office Rental	3,600	3,600	3,000	3,000	3,000
Balancing Accts.	2,500	2,500	0	0	0 <sup>1</sup>
Total Expenses	\$45,050	\$45,050	\$36,163	\$36,163	\$36,163
Depreciation	5,183	5,183	4,400	4,400	4,400
Property Taxes	740	740	740	740	740
Payroll Taxes	2,240	2,240	2,000	2,000	2,000
Income Taxes	200	2,640	200	5,020	2,060
Total Deductions	\$53,413	\$55,853	\$43,503	\$48,323	\$45,363
Net Revenue	(\$ 9,553)	\$10,147	\$ 340	\$18,470	\$10,190
<u>Rate Base</u>					
Average Plant	190,487	190,487	192,020	192,020	192,020
Average Depr. Res.	93,150	93,150	96,960	96,960	96,960
Net Plant	97,337	97,337	95,060	95,060	95,060
Less: Advances	8,030	8,030	1,140	1,140	1,140
Contributions	19,690	19,690	24,280	24,280	24,280
Plus: Working Cash	11,260	11,260	7,350	7,350	7,350
Mat'ls. & Suppls	250	250	250	250	250
Rate Base	\$81,127	\$81,127	\$77,240	\$77,240	\$77,240
Rate of Return	(Loss)	12.51%	1.85%	24.97%	12.41%

<sup>1</sup> Payroll balancing account allocated to employee labor, office salary and management salary, to be amortized over three years.

APPENDIX B  
(Page 1)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Dillon Beach and vicinity, located approximately 4 miles west of Tonales,  
Marin County.

RATES

<u>Annual Service Charge</u>	<u>Per Meter Per Year</u>	
For 5/8 x 3/4-inch meter .....	\$168.60	(I)
For 3/4-inch meter .....	235.20	
For 1-inch meter .....	352.20	
For 1-1/2-inch meter .....	528.00	
For 2-inch meter .....	807.00	(I)

  

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>	
First 300 cu.ft., per 100 cu.ft. ....	1.70	(I)
Over 300 cu.ft., per 100 cu.ft. ....	2.55	(I)

APPENDIX B  
(Page 2)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. 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.
2. The charges for quantities of water used may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative, monthly consumption basis.
3. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. (T)
4. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ( $1/365$ ) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the period of initial service, no refund of the initial annual charges shall be due the customer. (T)

(END OF APPENDIX B)



APPENDIX C

COMPARISON OF RATES

A comparison of present and Branch's recommended rates<sup>1</sup> for metered service is shown below:

<u>METERED SERVICE</u>		<u>Per Meter Per Month</u>	
Service Charge:		<u>Present Rates<sup>1</sup></u>	<u>Recommended Rates<sup>1</sup></u>
For 5/8 x 3/4-inch meter .....		\$11.50	\$14.05
For 3/4-inch meter .....		16.00	19.60
For 1-inch meter .....		24.00	29.35
For 1-1/2-inch meter .....		36.00	44.00
For 2-inch meter .....		55.00	67.25
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft .....		1.39	1.70
Over 300 cu.ft., per 100 cu.ft. ....		2.09	2.55

Comparison of monthly customer bills at present and Branch recommended rates<sup>1</sup> for 1985 test year for a 5/8 x 3/4-inch meter is shown below:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present Bills<sup>1</sup></u>	<u>Recommended Bills<sup>1</sup></u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$11.50	\$ 14.05	\$ 2.55	22.1
3 (avg)	15.67	19.15	3.48	22.2
5	19.85	24.25	4.40	22.2
10	30.30	37.00	6.70	22.1
15	40.75	49.75	9.00	22.0
20	51.20	62.59	11.30	22.0
30	72.10	88.00	15.90	22.0
50	113.90	139.00	25.10	22.0
100	218.40	266.50	48.10	22.0

<sup>1</sup> Does not include surcharge for repayment of SDWBA loan.

APPENDIX D  
(Page 1)

ADOPTED QUANTITIES  
(1986 Test Year)

Name of Company: Coast Springs Water Company

Net-to-Gross Multiplier:	1.1569
Federal Tax Rate:	15.0%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0.0%
Business License:	0.0
Uncollectible Rates:	0.0

Expenses Test Year 1986

1. Purchased Power (Electric)

Total Production - Ccf	8,414
------------------------	-------

Pacific Gas and Electric Company

Total Cost (\$)	\$1,900
Rate Schedule	A-1
Effective Date	9/1/85
kWh used	19,838
\$/kWh used	0.09560

2. Purchased Water:	None
3. Pump Tax-Replenishment Tax:	None
4. Payroll and Employee Benefits:	
Operation and Maintenance	\$14,200
Administrative & General	3,580
Total	\$17,780
5. Payroll Taxes	2,000
6. Ad Valorem Taxes:	\$740
Tax Rate	1.058%
Assessed Value	\$68,919

APPENDIX D  
(Page 2)

ADOPTED QUANTITIES  
(1986 Test Year)

Service Connections

1. Meter Size	1986
5/8 x 3/4" .....	217
1" .....	1
1-1/2" .....	1
Total	219

2. Metered Water Sales Used to Design Rates:

0-3 Ccf .....	4,739
Over 3 Ccf .....	3,675
Total	8,414

ADOPTED TAX CALCULATIONS<sup>1</sup>

Line No.	Item	1986 Adopted Rates	
		CCFT	FIT
1.	Operating Revenues	\$54,950	\$54,950
2.	O&M Expenses	21,153	21,153
3.	A&G Expenses	15,010	15,010
4.	Taxes Other Than Income	2,740	2,740
5.	Tax Depreciation	5,740	5,740
6.	Interest	1,400	1,400
7.	State Income Tax	-	855
8.	Sub-total Deduction	46,043	46,898
9.	State Taxable Income	8,907	
10.	State Income Tax	855	-
11.	Federal Table Income	-	8,052
12.	Federal Income Tax	-	1,205
13.	Inv. Tax Credit	-	-
14.	Total FIT		1,205
15.	Total Income Tax		2,060

<sup>1</sup> Corporation

APPENDIX B

DRAFT LETTER TO CUSTOMERS

602-19

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 50.48% RATE INCREASE BY COAST SPRINGS WATER COMPANY

Dear Customer:

Coast Springs Water Company has requested to increase your rates for water service by 50.48%. The Commission, after considering all factors presented, has granted the utility a general rate increase of 22.30%. For the typical residential customer this will mean an increase in the monthly 1986 bill from \$15.67 to \$19.15 not including surcharges for regulatory fees or for repayment of the Safe Drinking Water Bond Act loan. The surcharges have not been changed. ✓

The Commission is aware that the increase granted is large. However, this company has gone over 4 years without any rate increase. 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, rates must be set so as to cover operating expenses and provide a fair return on the utility's investment in its water system. You may be sure that the utility's request was thoroughly reviewed and evaluated by the Commission's staff before this change in rates was granted. ✓

A notice of the proposed rate increase was mailed to each customer on September 3, 1985. A total of two customer protests were received, both protesting the size of the proposed increase to the service charge. I hope this letter explains the Commission's decision.

If anyone wishes further details on the rate increase, please feel free to contact Martin Bragen at (415) 557-2436.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch