

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 to Executive Director

RESOLUTION NO. W-3339

EVALUATION & COMPLIANCE DIVISION  
 BRANCH/SECTION: Water Utilities  
 DATE: October 1, 1986

\_\_\_\_\_ Director  
 \_\_\_\_\_ Numerical File  
 \_\_\_\_\_ Alphabetical File  
 \_\_\_\_\_ Accounting Officer

R E S O L U T I O N

REDWOOD WATER COMPANY (RWC). ORDER AUTHORIZING  
 A GENERAL RATE INCREASE PRODUCING \$5,115 OR  
 34% ADDITIONAL ANNUAL REVENUE.

RWC, by draft advice letter furnished to the Water Utilities Branch (Branch) on October 28, 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 \$5,115 or 34%. RWC estimates that 1986 gross revenue of \$15,035 at present rates would increase to \$20,150 at proposed rates and would produce a rate of return of 1.06% on rate base. RWC serves about 155 flat rate customers in the vicinity of Forestville, Sonoma County.

The present rates have been in effect since May 10, 1983 pursuant to Resolution No. W-3094, dated May 4, 1983 which authorized a general rate increase.

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

The differences in estimates of operating expenses are in purchased power, uncollectibles, and income taxes.

The Branch's estimate of purchased power is lower than RWC's due to the Branch's use of the latest power rates which are lower than the rates in effect when RWC prepared its estimate.

All of RWC's customers are under its annual flat rate residential service tariff which calls for payment in advance. The Branch has therefore not included an amount for uncollectibles.

The difference in the estimate of income taxes is due to RWC not including federal income tax in its estimate of expenses for ratemaking. The Branch included both federal and state income tax in its estimate.

The difference in rate base is due to differences in the estimates of plant and depreciation reserve.

The Branch's estimate of utility plant is higher than RWC's. The Branch's estimate is based on a review of recorded data regarding annual plant additions and the last adopted plant. RWC's estimate is not supported by workpapers.

The Branch's estimate of depreciation reserve is slightly lower than RWC's. The difference is due to an arithmetical error in RWC's 1983 annual report which it carried through to its test year estimate.

The summary of earnings submitted with RWC's rate increase request shows a rate of return on rate base of 1.06% at proposed rates. The Branch's recommended summary of earnings shows a rate of return of 2.18% at proposed rates. This rate of return, although lower than the rate of return range (10.25% to 10.75%) recommended by the Financial and Accounting Branch of the Evaluation and Compliance Division for small water utilities with 100% equity financing, results in RWC being granted the total revenue increase requested.

RWC was informed of the Branch's differing views of operating expenses, rate base and rate of return and has stated that it accepts the Branch's estimates.

A notice of the proposed increase was mailed to each customer on August 8, 1986. Two letters were received concerning the proposed increase, both alleging that the annual flat rate tariff is inequitable to part-time residents.

The Branch has drafted a letter of reply to the customers who wrote about this rate increase. It explains that a large portion of the costs of providing water service do not vary with the amount of water used. Thus, even though many customers do not use water year-round, the costs of maintaining the system ready to service accrue regardless, and the rates must take this into consideration. If the company were to install meters, the costs of purchasing, installing, maintaining and reading those meters would have to be passed on to customers as overall higher rates. The Branch's letter will be mailed after the resolution is signed. The draft letter is attached as Appendix E.

A field investigation of RWC's system was made on March 18, 1986 by a member of the Branch. Visible portions of the water system were inspected, pressures checked, customers and company employees interviewed and methods of operation reviewed. The investigation indicated that RWC'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 Commission orders requiring system improvements.

RWC's water supply is obtained from two deep wells. According to the Sonoma County Public Health Department, there are no water quality problems and the water system has ample water supply. Therefore, a water conservation program is not needed.

At the Branch recommended rate, the annual bill for a typical flat rate customer will increase from \$97.00 to \$130.00 which is 34%. A comparison of present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$5,115 or 34% which would increase estimated annual operating revenue from \$15,035 at the present rate to \$20,150 at the recommended rate contained in Appendix B. This increase provides a 2.18% 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 (Appendix A) is reasonable and should be adopted.
- b. The rate recommended by the Branch (Appendix B) is reasonable and should be authorized.
- c. The quantities (Appendix D) used to develop the Branch's recommendation 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 Redwood 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. 2AR. Such filing shall comply with General Order 96-A.
2. The effective date of the revised rate schedule 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 October 1, 1986. The following Commissioners approved it:



VICTOR R. WEISSER  
Executive Director

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

APPENDIX A

REDWOOD WATER COMPANY

SUMMARY OF EARNINGS  
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue	\$15,035	\$20,150	\$15,035	\$20,150	\$20,150
<u>Operating Expenses</u>					
Purchased Power	2,650	2,650	2,290	2,290	2,290
Employee Labor	4,800	4,800	4,800	4,800	4,800
Materials	2,200	2,200	2,200	2,200	2,200
Contract Work	1,800	1,800	1,800	1,800	1,800
Uncollectibles	200	200	0	0	0
Insurance	4,114	4,114	4,114	4,114	4,114
Accounting, Legal, etc.	600	600	600	600	600
Vehicle Expenses	400	400	400	400	400
Subtotal	\$16,764	\$16,764	\$16,204	\$16,204	\$16,204
Depreciation	2,004	2,004	2,004	2,004	2,004
Property Taxes	400	400	400	400	400
Payroll Taxes	430	430	430	430	430
Income Taxes	200	200	200	337	337
Total Expenses	\$19,798	\$19,798	\$19,238	\$19,375	\$19,375
Net Revenue	(\$ 4,763)	\$ 352	(\$ 4,203)	\$ 775	\$ 775
<u>Rate Base</u>					
Average Plant	71,553	71,553	73,500	73,500	73,500
Average Depr. Res.	38,286	38,286	37,970	37,970	37,970
Net Plant	33,267	33,267	35,530	35,530	35,530
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
M & S	0	0	0	0	0
Rate Base	\$33,267	\$33,267	\$35,530	\$35,530	\$35,530
Rate of Return	Loss	1.06%	Loss	2.18%	2.18%

APPENDIX B

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

The areas known as Summer Home Park and Highcroft and vicinity, located approximately four miles northwest of Forestville, Sonoma County.

RATES

	<u>Per Service Connection</u> <u>Per Year</u>
For a single-family residential unit, including preises .....	\$130.00 (I)

SPECIAL CONDITIONS

1. The above flat rate applies to service connections not larger than one inch in diameter.
2. The annual flat rate 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 flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods.
3. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where the 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 date of initial service, no refund of the initial annual charges shall be due the customer.

APPENDIX C

COMPARISON OF RATES

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

<u>ANNUAL RESIDENTIAL FLAT RATE SERVICE</u>	<u>Per Service Connection Per Year</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
For a single-family residential unit, including premises .....	\$97.00	\$130.00	34

APPENDIX D  
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ADOPTED QUANTITIES  
(1986 Test Year)

Name of Company: Redwood Water Company

Net-to-Gross Multiplier:	N/A
Federal Tax Rate:	15%
State Tax Rate:	\$200 minimum
Local Franchise Tax Rate:	0
Business License:	0
Uncollectible Rate:	0

Expenses Test Year 1986

- Purchased Power:  
Pacific Gas and Electric Co.

Total Cost (\$)	\$2,290
Rate Schedule	A-1
Eff. Sch. Date	3/13/86
kWh	22,900
\$/kWh	0.09991
- Purchased Water: None
- Pump Tax-Replenishment Tax: None
- Payroll and Employee Benefits:  
Operation and Maintenance \$4,800
- Ad Valorem Taxes:  
Tax Rate \$400  
Assessed Value 1.0591%  
\$37,400

Service Connections

Flat Rate Service ..... 155

APPENDIX D  
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ADOPTED TAX CALCULATIONS<sup>1</sup>

Line No.	Item	1986 Adopted Rates	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$20,150	\$20,150
2.	Operating Expenses	16,204	16,204
3.	Taxes Other Than Income	830	830
4.	Tax Depreciation	2,004	2,004
5.	Interest	0	0
6.	State Income Tax	-	200
7.	Sub-total Deduction	19,038	19,238
8.	State Taxable Income	1,112	-
9.	State Income Tax	200	-
10.	Federal Table Income	-	912
11.	Federal Income Tax	-	137
12.	Total Income Tax	200	337

<sup>1</sup> Corporation



APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A RATE INCREASE BY REDWOOD WATER COMPANY

Dear Customer:

On August 8, 1966, Redwood Water Company notified its customers that it was requesting authority from the Commission to raise its water rates. After considering all factors presented, the Commission has authorized Redwood to raise its rates by 34% as requested. For all flat rate customers, this will mean an increase in the annual bill to \$130.00 from \$97.00.

The Commission is aware that the percentage increase granted is large. However, this utility has been operating at a loss for many years. 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.

In response to Redwood Water Company's notice, two customers wrote to point out that they were required to pay water rates based on year-round service when they only use the system for limited periods in the summer. The Commission sets rates so as to allow utilities to cover their expenses and realize a reasonable return on their investment in the water system. A large portion of the costs of providing water service do not vary with the amount of water used. Thus, even though many customers do not use water year-round, the costs of maintaining the system ready to serve continue to accrue, and the rates must take this into consideration. Additionally, if the company were to install meters, the costs of purchasing, installing, maintaining and reading those meters would have to be passed on to customers as overall higher rates.

We appreciate your writing to us. If you have any further questions, please contact Peter T. Liu at (415) 557-0940.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch