

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 to Executive Director

RESOLUTION NO. W-3348

EVALUATION & COMPLIANCE DIVISION
 BRANCH/SECTION: Water Utilities
 DATE: March 6, 1987

Director
 Numerical File
 Alphabetical File
 Accounting Officer

R E S O L U T I O N

CAZADERO WATER COMPANY (CWC). ORDER
 AUTHORIZING A GENERAL RATE INCREASE PRODUCING
 \$7,517 OR 95.8% ADDITIONAL ANNUAL REVENUE.

CWC, by draft advice letter received by the Water Utilities Branch (Branch) on June 26, 1986, 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 \$7,517 or 96.5%. CWC estimates that 1986 gross revenue of \$7,792 at present rates would increase to \$15,309 at proposed rates and would still produce a net revenue loss. CWC serves about 148 metered and five flat rate customers in Cazadero, Sonoma County.

The present rates have been in effect since January 1, 1977 pursuant to Resolution No. W-204 dated November 30, 1976 which authorized a general rate increase.

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

CWC's revenue estimates are based on 1985 revenues with a minor adjustment for one customer's having shifted from flat rate to metered service. The Branch based its estimates on average water use during the past three years. Because the recorded data show unexplained variations from year to year, the Branch's estimates are more representative of revenues to be expected in a normal year. The Branch's estimate at proposed rates is slightly lower than CWC's due to the Branch having projected that the system's largest user will reduce consumption at the higher rates.

The differences in estimates of operating expenses are in purchased power, transportation expense, office service and rent, professional services, general expenses, uncollectibles, depreciation, taxes other than on income, and income taxes.

The Branch's estimate of purchased power is lower than CWC's due to the Branch's lower power usage estimate and because of its use of later power rates which were lower than the rates in effect when CWC prepared its estimate. CWC's meter records both utility and non-utility power usage; therefore, both CWC and the Branch made indirect estimates of utility power use. CWC's estimate of \$2,723 is based on 1985 estimated pump operating hours, which the Branch found inconsistent with prior years' records. The Branch based its estimate of \$1,580 on an estimated 1986 pumped quantity of 5,315 Ccf (hundred cubic feet) and power use of 3 kWh (kilowatt hours) per Ccf. The decrease in the Branch's estimate from present to proposed rates reflects reduced consumption by the system's largest user at the higher water rates.

The difference in estimates of transportation expense is due to CWC having misplaced a decimal point in its calculations.

The difference in office service and rent is due to CWC claiming an arbitrary rent increase of \$55 per year over the previously recorded \$360 per year. The owner of CWC also owns the building and offered no reason for increasing the rent, so the Branch used the previously recorded level.

CWC does its own accounting and has an outside accounting firm review its work. It could not explain why its estimate of \$745 for such professional services had increased more than threefold during a three year period, so the Branch estimated \$380 as a reasonable expense based on CWC's recorded figures for earlier years. This is consistent with professional services amounts for other small companies of CWC's size.

CWC could not explain how it arrived at its estimate of \$731 for general expenses, so the Branch used the average of the last five recorded years escalated to 1986. All of the Branch's escalation factors are those recommended by the Research Branch of Evaluation and Compliance Division.

The difference in uncollectible expense estimates is due to CWC considering a past due bill for service of \$500 to an active customer as uncollectible. The Branch believes that this bill is collectible if proper tariff procedures are followed.

Three separate items account for the difference between the Branch's and CWC's estimates of taxes other than on income: 1) CWC applied an incorrect payroll tax rate; 2) CWC incorrectly projected that a county health services fee would increase during 1986; and 3) CWC neglected to add the increased property taxes for the replacement water tank mentioned below.

CWC did not estimate any expense for income taxes. The Branch calculated income taxes using the standard method as shown in Appendix D.

CWC constructed a new water tank during 1986 and retired the old tank. The Branch's estimate of plant in service is lower than CWC's because the Branch had available the final cost for the tank and because CWC did not reflect the retirement of the old tank from plant-in-service. This replacement also affected property taxes, CWC's depreciation rate, and depreciation expense and reserve.

CWC's plant was almost completely depreciated prior to adding the new water tank in 1986. The Branch analyzed the 1986 plant and recommends that CWC begin using a 0.9% depreciation rate. The old, much lower rate in use since 1972 no longer reflects the plant in service. Depreciation expense and reserve will increase as a result, but the increase in depreciation reserve will be more than offset by booking the retirement of the old tank.

CWC included \$2,544 worth of miscellaneous materials as capitalized materials and supplies. An examination of the company's books showed that materials are generally fully expensed when they are purchased, so the Branch did not include an amount for materials and supplies in rate base.

The summary of earnings submitted with CWC's rate increase request shows a loss. The Branch's recommended summary of earnings shows a rate of return of 2.79% at proposed rates. This rate of return, although lower than the rate of return range (10.25% to 10.75%) recommended by the Accounting and Financial Branch of the Evaluation and Compliance Division for small water utilities with 100% equity financing, results in CWC being granted the total revenue increase requested. The authorized rate of return in the last rate case is generally used to determine whether a utility's earnings are excessive when the Commission is considering granting rate relief for offsettable items such as purchased power. Therefore, the Branch recommends the Commission find a rate of return on rate base not exceeding 10.5% to be reasonable for the purpose of earnings tests for CWC in future offset requests.

CWC was informed of the Branch's views of revenues, expenses and rate base and it has stated that it accepts the Branch's estimates.

Notice of the proposed increase was mailed to all customers on October 3, 1986. No customer protests or replies have been received.

A field investigation of CWC's system was made on August 17, 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 operations checked. The investigation indicated that CWC'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.

CWC's water supply is obtained from three springs and two wells. According to the Sonoma County Public Health Department, there are no water quality problems and the water system has ample water supply.

The present metered rate schedule consists of a minimum charge, which includes 300 cubic feet, and four declining tail blocks. The Branch proposes to change this to a single metered quantity rate and a service charge which will recover 49.9% of CWC's fixed costs. This is in accordance with the Commission's rate design policy for small water companies established by Decision 86-05-064 which calls for fewer rate blocks, the elimination of lifeline, and service charges which recover up to 50% of fixed costs.

The Branch recommends that the Commission authorize an increase of \$7,517 or 95.8% which would increase estimated annual operating revenue from \$7,848 at

present rates to \$15,365 at the recommended rates contained in Appendix B. This increase provides a 2.79% rate of return on rate base.

At the Branch's recommended rates, the monthly bill for a typical metered customer using 600 cubic feet of water per month will increase from \$3.90 to \$8.51 which is 118%. A comparison of the present and recommended rates is shown in Appendix C.

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 rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
- c. The quantities (Appendix D) used to develop the Branch's recommendation are reasonable and should be adopted.
- d. For the purpose of earnings tests in any future offset rate increase requests, a rate of return on rate base not exceeding 10.5% should be considered reasonable.
- e. CWC should be required to use a composite depreciation rate of 0.9% until plant composition changes to warrant a different rate.


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 Cazadero Water Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel the presently effective rate Schedule Nos. 1A and 2A. 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. Cazadero Water Company shall use a composite depreciation rate of 0.9% until plant composition changes to warrant a different rate.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 6, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
Commissioners


VICTOR R. WEISSER
Executive Director

APPENDIX A
 CAZADERO WATER COMPANY
 Summary of Earnings
 (Estimated Year 1986)

| Item | : Utility Estimated : | | : Branch Estimated : | | : Adopted : |
|---------------------------|-----------------------|-----------------|----------------------|-----------------|-----------------|
| | : Present : | : Requested : | : Present : | : Requested : | |
| | : Rates : | : Rates : | : Rates : | : Rates : | |
| Operating Revenues | | | | | |
| Flat | \$ 180 | \$ 210 | \$ 214 | \$ 214 | \$ 550 |
| Metered | 7,612 | 15,099 | 7,634 | 14,932 | 14,815 |
| Total Revenues | <u>7,792</u> | <u>15,309</u> | <u>7,848</u> | <u>15,146</u> | <u>15,365</u> |
| Operating Expenses | | | | | |
| Purchased Power | 2,723 | 2,723 | 1,856 | 1,580 | 1,580 |
| Materials | 1,514 | 1,514 | 1,514 | 1,514 | 1,514 |
| Contract Work | 600 | 600 | 600 | 600 | 600 |
| Trans. Exp. | 2,188 | 2,188 | 240 | 240 | 240 |
| Uncollectibles | 500 | 500 | 0 | 0 | 0 |
| Off. Serv. & Rent. | 415 | 415 | 360 | 360 | 360 |
| Office Supply | 500 | 500 | 500 | 500 | 500 |
| Prof. Services | 745 | 745 | 380 | 380 | 380 |
| Insurance | 956 | 956 | 956 | 956 | 956 |
| Gen. Expenses | 731 | 731 | 476 | 476 | 476 |
| Payroll | 6,922 | 6,922 | 6,922 | 6,922 | 6,922 |
| Sub-Total | <u>\$17,794</u> | <u>\$17,794</u> | <u>\$13,804</u> | <u>\$13,528</u> | <u>\$13,528</u> |
| Depreciation | 67 | 67 | 372 | 372 | 372 |
| Other Taxes | 620 | 620 | 782 | 782 | 782 |
| Income Taxes | 0 | 0 | 200 | 240 | 272 |
| Total Expenses | <u>\$18,481</u> | <u>\$18,481</u> | <u>\$15,158</u> | <u>\$14,922</u> | <u>\$14,954</u> |
| Net Revenue | (10,689) | (3,172) | (7,310) | 224 | 411 |
| Rate Base | | | | | |
| Average Plant | 44,410 | 44,410 | 42,011 | 42,011 | 42,011 |
| Avg Depr. Reserve | 28,927 | 28,927 | 27,262 | 27,262 | 27,262 |
| Net Plant | 15,483 | 15,483 | 14,749 | 14,749 | 14,749 |
| Less: Advances | 0 | 0 | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 | 0 | 0 |
| Plus: Working Cash | 0 | 0 | 0 | 0 | 0 |
| Matls & Suppls | 2,544 | 2,544 | - | - | - |
| Rate Base: | 18,027 | 18,027 | 14,749 | 14,749 | 14,749 |
| Rate of Return | Loss | Loss | Loss | 1.52% | 2.79% |

APPENDIX B
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Cazadero and vicinity, Sonoma County.

RATES

| | | |
|---|--------------------------------------|-----------------|
| Monthly Quantity Rate: | <u>Per Meter</u> <u>Per Month</u> | |
| Per 100 cu.ft. | \$ 0.81 | (I) |
| Annual Service Charge: (C) | <u>Per Meter</u> <u>Per Year</u> | |
| For 5/8 x 3/4-inch meter | \$ 43.80 | (I) |
| For 3/4-inch meter | 48.60 | |
| For 1-inch meter | 66.00 | |
| For 1-1/2-inch meter | 92.40 | |
| For 2-inch meter | 118.80 | (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. | | (C) (C) |

SPECIAL CONDITIONS

1. 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. Meters will be read and quantity charges billed monthly, bimonthly or quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. (C)

APPENDIX B

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Schedule No. 1A

SPECIAL CONDITIONS (Continued)

2. 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 date of initial service, no refund of the initial annual charges shall be due the customer. (C)

APPENDIX B
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Schedule No. 2A

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished on a limited temporary basis.

TERRITORY

Cazadero and vicinity, Sonoma County.

RATES

| | <u>Per Service Connection</u> <u>Per Year</u> | |
|--|--|-----|
| 1. For a single-family residential unit, including premises | \$100.00 | (I) |
| 2. For sawmill | 150.00 | (I) |

SPECIAL CONDITIONS

1. Service under this schedule shall be limited to the premises now being served hereunder as of the effective date of this tariff sheet.

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

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

| <u>METERED SERVICE</u> | <u>Per Meter Per Year</u> | |
|--------------------------------|---------------------------|--------------------------|
| | <u>Present Rates</u> | <u>Recommended Rates</u> |
| Service Charge: | | |
| For 5/8 x 3/4-inch meter | \$ 32.40 | \$ 43.80 |
| For 3/4-inch meter | 57.60 | 48.60 |
| For 1-inch meter | 76.80 | 66.00 |
| For 1-1/2-inch meter | 124.80 | 92.40 |
| For 2-inch meter | 172.80 | 118.80 |

| <u>Quantity Rates:</u> | <u>Per Meter Per Month</u> | |
|---|----------------------------|---------|
| First 300 cu.ft., or less | incl. in min. | |
| Next 1,200 cu.ft., per 100 cu.ft. | \$ 0.40 | |
| Next 3,500 cu.ft., per 100 cu.ft. | 0.32 | |
| Next 5,000 cu.ft., per 100 cu.ft. | 0.24 | |
| Over 10,000 cu.ft., per 100 cu.ft. | 0.16 | |
| All water, per 100 cu.ft. | | \$ 0.81 |

| <u>FLAT RATE SERVICE</u> | <u>Per Service per Year</u> | |
|--------------------------------------|-----------------------------|----------|
| Single family residential unit | \$36.00 | \$100.00 |
| Sawmill | 84.00 | 150.00 |

A comparison of customer bills on a prorated monthly basis at present and Branch recommended rates for 1986 test year 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 | \$ 2.70 | \$ 3.65 | \$ 0.95 | 35 |
| 3 | 2.70 | 6.08 | 3.38 | 125 |
| 6 (avg) | 3.90 | 8.51 | 4.61 | 118 |
| 10 | 5.50 | 11.75 | 6.25 | 114 |
| 15 | 7.50 | 15.80 | 8.30 | 111 |
| 20 | 9.10 | 19.85 | 10.75 | 118 |
| 30 | 12.30 | 27.95 | 15.65 | 127 |
| 50 | 18.70 | 44.15 | 25.45 | 136 |
| 100 | 30.70 | 84.65 | 53.95 | 176 |

APPENDIX D
Page 1

ADOPTED QUANTITIES
(Test Year 1986)

Name of Company: Cazadero 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 Rates: | 0% |

Expenses

1. Purchased Power (Electric)

Pacific Gas and Electric Company

| | |
|-----------------|---------|
| Total Cost (\$) | \$1,580 |
| Rate Schedule | A-1 |
| Eff. Sch. Date | 7/1/86 |
| kWh used | 15,943 |
| \$/kWh | .09910 |

| | |
|-----------------------------------|----------|
| 2. Purchased Water: | None |
| 3. Pump Tax-Replenishment Tax: | None |
| 4. Payroll and Employee Benefits: | \$6,922 |
| 5. Payroll Taxes | \$482 |
| 6. Ad Valorem Taxes: | \$165 |
| Tax Rate | 1.02% |
| Assessed Value | \$16,222 |

APPENDIX D
Page 2

ADOPTED QUANTITIES
(Test Year 1986)

Service Connections

| | |
|--|-----|
| 1. Meter Size: | |
| 5/8 x 3/4" | 147 |
| 1" | 1 |
| 2. Metered Water Sales to Design Rates: 10,225 Ccf | |
| 3. Flat Rate: | |
| Single family residence | 4 |
| Sawmill | 1 |

ADOPTED TAX CALCULATIONS

| Line No. | Item | 1986 Adopted Rates | |
|----------|-------------------------|-----------------------|------------|
| | | <u>CCF</u> | <u>FIT</u> |
| 1. | Operating Revenues | \$15,365 | \$15,365 |
| 2. | Operating Expenses | 13,528 | 13,528 |
| 3. | Taxes Other Than Income | 782 | 782 |
| 4. | Tax Depreciation | 372 | 372 |
| 5. | State Income Tax | - | 200 |
| 6. | Sub-total Deduction | 14,682 | 14,882 |
| 7. | State Taxable Income | 683 | - |
| 8. | State Income Tax | 200 | - |
| 9. | Federal Taxable Income | - | 483 |
| 10. | Federal Income Tax | - | 72 |
| 11. | Total Income Tax | - | 272 |

(END OF APPENDIX D)