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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3355
March 25, 1987

R E S O L U T I O N

RANCHO DEL PARADISO WATER COMPANY (RDP). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$3,591 OR 35.3% ADDITIONAL ANNUAL REVENUE.

RDP, by draft advice letter accepted by the Water Utilities Branch (Branch) on June 24, 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 \$5,970 or 58.7%. RDP estimates that 1986 gross revenue of \$10,170 at present rates would increase to \$16,140 at proposed rates and would produce a rate of return of 11.47% on rate base. RDP serves about 61 metered customers in the unincorporated area known as Rancho Del Paradiso Subdivision, near Duncan Mills, Sonoma County.

The present rates have been in effect since October 27, 1982 pursuant to Resolution No. W-3026 which authorized a general rate increase. A Safe Drinking Water Bond Act (SDWBA) loan payment surcharge authorized by Decision No. (D.) 84-02-045 has been in effect since February 16, 1984. A decrease in the SDWBA surcharge was filed on May 14, 1986 pursuant to Resolution No. W-3312, dated May 7, 1986 to reflect the lower final cost of construction.

The Branch made an independent analysis of RDP's summary of earnings. Appendix A shows RDP's and the Branch's estimates of summary of earnings at present, requested and adopted rates.

The differences in estimates of operating expenses are in purchased power, materials, employee labor, office salaries, management salaries, insurance, vehicle expense, office and storage rental, property taxes, and payroll taxes.

The difference in the estimates of purchased power results from the Branch's use of the latest power rates effective July 1, 1986 which are lower than the rates in effect when RDP prepared its estimate.

The Branch's estimate of materials is higher because in checking with RDP's supplier it found that the price of filters RDP purchases periodically for the turbidity meter had gone up since RDP made its estimate.

RDP and the Branch differ on the proper level of payroll (employee labor, office salaries, and management salaries) to be allowed; RDP estimated \$5,700 and the Branch \$4,400. RDP's estimate was determined based on employing two family members and allocating their costs to RDP, another regulated water

utility, and the owner's other business interests, plus an additional amount for his own management effort.

The Branch found RDP's payroll estimate excessive considering the number of customers and the employees' duties, and therefore reestimated payroll using available company wage and hour records. The Branch believes its estimates more reasonably reflect payroll requirements for a water utility of RDP's size.

For employee labor, the Branch reviewed RDP's detailed record of the number of hours worked during 1985 and estimated the same number of hours for 1986 priced out at the employee's current hourly rate.

For office salaries, the Branch used a figure 10% higher than the inflation-adjusted level of office salary per customer from the last general rate case in 1982. The Branch found the figure thus derived consistent with the current salary rate and assigned tasks for the employee as reported by the utility.

The Branch did not include any management salaries in its estimate as the present employee labor and office salaries alone reflect a level of payroll commensurate with a system of this size and type. This is consistent with the last general rate case which also did not include management salaries. The Branch did, however, include a regulatory commission expense of \$600 spread over the three year rate case cycle (\$200 per year) to allow for rate increase request preparation work and related expenses which RDP included in its \$600 management salaries estimate for the test year.

The difference in insurance estimates is due to the Branch using the actual premium bill for the test year which was not available to RDP when it prepared its estimate.

RDP used the vehicle expense reported in its 1985 annual report as its 1986 test year estimate. The Branch based its 1986 test year estimate on the vehicle expense recorded in the utility's general ledger for 1985 which was less than the amount reported in the annual report. The utility's bookkeeper stated that the amount in the general ledger was the actual recorded 1985 expense and could not explain why it was less than the figure recorded in the annual report. The Branch escalated the amount recorded in the 1985 ledger by 10% to arrive at its 1986 estimate to take into account inflation and the additional travel necessary for monitoring the newly installed turbidity meter.

RDP estimated \$600 for office and storage rental expense for 1986. This amount appears to be unreasonably high considering that this office is also shared with an insurance brokerage, a realty company and Armstrong Valley Water Company. The Branch determined its estimate of \$300 by allocating the total rent in proportion to the area occupied by each operation.

The difference in property tax estimates is due to RDP's inclusion of SDWBA financed improvements for calculating its property tax estimate for the test year, while the Branch based its estimate on RDP's actual 1986-1987 property tax bill which excludes assessment on SDWBA financed improvements. This bill was not available to RDP when it did its estimate.

The Branch's estimate of payroll taxes in the test year is less than RDP's because of the Branch's lower estimate of payroll.

The Branch's estimates of income taxes for the test year differ from RDP's because the Branch has different estimates of expenses.

RDP estimated its proposed rates would produce an 11.47% return on rate base. The Branch used 10.50%, the midpoint of the 10.25% to 10.75% standard rate of return range for 100% equity companies currently recommended by the Commission's Accounting and Financial Branch.

By Resolution No. M-4705 dated April 24, 1979, the Commission adopted standardized procedures for handling small water company advice letter general rate increase requests. When the staff and utility differ on the reasonableness of any item, the procedures call for "...staff estimates [to be] forwarded to the utility for its review... [and] an informal conference [to] be scheduled... [to] attempt to resolve the differences between the staff and utility. If major differences still exist between the staff and utility, the applicant may request that an application number be assigned to the advice letter and hearings in the matter be scheduled."

In RDP's case, some of the differences were resolved through this process. RDP is fully aware of its right under M-4705's procedures but has decided to accept the Branch's recommendations on the remaining differences rather than request a formal hearing.

A notice of the proposed rate increase was mailed to all customers on August 11, 1986. Eighteen customers responded by sending in a form letter. All protested the magnitude of the rate increase and the high service charge as a percentage of the total water bill.

The Branch has drafted a letter of reply to the 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.

A field investigation of RDP's system was made on August 4 and 5, 1986 by members 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 RDP'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 Sonoma County Public Health Department, water quality is satisfactory.

RDP has an ample water supply drawn from a spring. The system average usage is very low because of the large proportion of second homes, and it is fully metered. No special conservation measures are needed.

The current rate structure consists of a service charge designed to recover approximately 69% of the fixed cost and a two-block inverted rate structure with the first quantity block of 200 cubic feet being the lifeline allowance. The high service charge is consistent with past Commission practice for

resort areas where consumption is very low due to a high percentage of part time residents. RDP is such an area with approximately 50% of the connections serving second homes.

D.86-05-064 established a new rate design policy allowing water companies to recover up to 50% of their fixed costs through service charges. However, the decision does not specifically address rate design for companies in resort areas, or companies whose service charges currently recover more than 50% of fixed costs. Water consumption in resort areas is usually very low and strongly seasonal. Failure to recover a larger portion of the company's fixed costs through service charges under these circumstances could cause serious cash flow problems and in time result in deterioration of service. In RDP's case, the Branch recommends that the service charge be raised by approximately the adopted system average increase to allow the recovery of a high percentage of fixed cost to continue. The Branch also recommends a single block quantity rate consistent with the current Commission rate design policy of phasing out lifeline as established in D.86-05-064.

The Branch recommends that the Commission authorize an increase of \$3,591 or 35.3% which would increase estimated annual operating revenue from \$10,170 at present rates to \$13,761 at the recommended rates contained in Appendix B. This increase provides a 10.50% rate of return on rate base.

At the Branch's recommended rate, the monthly bill for a metered customer with the system average usage of 3.6 Ccf (hundred cubic feet) of water per month will increase from \$13.63 to \$18.74 which is 37.5%. A comparison of the present and recommended metered 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.

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 Rancho Del Paradiso 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. 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 March 25, 1987. The following Commissioners approved it:

Commissioner John B. Ohanian,
present but not participating.

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



VICTOR R. WEISSER
Executive Director

APPENDIX A

RANCHO DEL PARADISO WATER COMPANY

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: : : Rates : Adopted:
	: Present :	: Requested:	: Present :	: Requested:	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue					
Metered	\$10,170	\$16,140	\$10,170	\$16,140	\$13,761
Flat	0	0	0	0	0
	<u>10,170</u>	<u>16,140</u>	<u>10,170</u>	<u>16,140</u>	<u>13,761</u>
Operating Expenses					
Source of Supply Exp.	300	300	300	300	300
Purchased Water	0	0	0	0	0
Purchased Power	510	510	490	490	490
Materials	1,230	1,230	1,300	1,300	1,300
Employee Labor	3,600	3,600	3,290	3,290	3,290
Contract Work	560	560	560	560	560
Office Salaries	1,500	1,500	1,150	1,150	1,150
Management Salaries	600	600	0	0	0
Office Supplies & Exps.	210	210	210	210	210
Insurance	1,210	1,210	1,270	1,270	1,270
Accounting and Legal	390	390	390	390	390
General Expense	340	340	340	340	340
Vehicle Expense	630	630	510	510	510
Office & Storage Rental	600	600	300	300	300
Regulatory Comm. Exp.	0	0	200	200	200
Empl Pensions & Benefits	480	480	480	480	480
Total Expenses	<u>\$12,160</u>	<u>\$12,160</u>	<u>\$10,790</u>	<u>\$10,790</u>	<u>\$10,790</u>
Depreciation	860	860	860	860	860
Property Taxes	780	780	110	110	110
Payroll Taxes	600	600	390	390	390
Income Taxes	200	430	200	924	412
Total Deductions	<u>\$14,600</u>	<u>\$14,830</u>	<u>\$12,350</u>	<u>\$13,074</u>	<u>\$12,562</u>
Net Revenue	(\$ 4,430)	\$ 1,310	(\$ 2,180)	\$ 3,066	\$ 1,199
Rate Base					
Average Plant	\$24,560	\$24,560	\$24,560	\$24,560	\$24,560
Average Depr. Res.	14,140	14,140	14,140	14,140	14,140
Net Plant	10,420	10,420	10,420	10,420	10,420
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	1,000	1,000	1,000	1,000	1,000
Mat'l. & Supp.	0	0	0	0	0
Rate Base	<u>\$11,420</u>	<u>\$11,420</u>	<u>\$11,420</u>	<u>\$11,420</u>	<u>\$11,420</u>
Rate of Return	(LOSS)	11.47%	(LOSS)	26.85%	10.50%

APPENDIX B
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Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Rancho del Paradiso Subdivision, near Duncan Mills, Sonoma County.

RATES

Annual Service Charge:	Per Meter Per Year Charge	Per Meter Per Year Surcharge ¹
For 5/8 x 3/4-inch meter	\$145.80 (I)	\$ 97.20
For 3/4-inch meter	219.00 I	145.80
For 1-inch meter	365.40 (I)	243.00

Quantity Rates:	Per Meter Per Month
All water, per 100 cu.ft.	1.83 (I) (C)

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.

¹ 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 84-02-045.

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Schedule No. 1A

ANNUAL METERED SERVICE

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing July 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 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 for water used. Meters may be read and quantity charges billed during the winter season at intervals greater than three months. (C) (D)

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 July, 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 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 Year</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	\$108.00	\$145.80	35.0
For 3/4-inch meter	162.00	219.00	35.2
For 1-inch meter	270.00	365.40	35.3
 <u>Quantity Rates:</u>	<u>Per Meter Per Month</u>		
First 200 cu.ft., per 100 cu.ft. .	1.05		
Over 200 cu.ft., per 100 cu.ft. ..	1.58		
All water, per 100 cu.ft.		1.83	

A comparison of monthly bills for a customer with a 5/8 x 3/4-inch meter at present and Branch recommended rates for the 1986 test year is shown below:

<u>Usage 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 9.00	\$ 12.15	\$ 3.15	35.0
3.6(avg)	13.63	18.74	5.11	37.5
5	15.84	21.30	5.46	34.5
10	23.74	30.45	6.71	28.3
20	39.54	48.75	9.21	23.3
30	55.34	67.05	11.71	21.2
50	86.94	103.65	16.71	19.2
100	165.94	195.15	29.21	17.6

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ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Rancho del Paradiso Water Co.

Federal Tax Rate:	15.0%
State Tax Rate (\$200 minimum):	9.6%
Local Franchise Tax Rate:	0.0%
Business License:	0.0
Uncollectible Rates:	0.0

Expenses Test Year 1986

1. Purchased Power (Electric)
Pacific Gas and Electric Company

Schedule A-1 (Freezeout Creek)	
kWh	3738
\$/kWh:	.09439
Commodity cost	\$353
Demand (\$1.75/mo./pump)	
2 pumps	\$42

Schedule LS-1A	
Security Light (Freezeout Cr.)	
\$7.95/mo.	\$95
Total	\$490

2. Purchased Water: None

3. Pump Tax-Replenishment Tax: None

4. Payroll and Employee Benefits:	
Opern & Maint. Payroll	\$ 3,290
Admin & Genl Salaries	\$ 1,150
Total	\$ 4,440

Payroll Taxes	\$ 390
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5. Ad Valorem Taxes:	110
Tax Rate	1.0259%
Assessed Value	\$10,500

APPENDIX D
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ADOPTED QUANTITIES
(1986 Test Year)

Service Connections

1. Meter Size		
5/8 x 3/4"	61
3/4"	0
1"	0
2. Flat Rate		<u>0</u>
	Total	61
3. Metered Water Sales Used to Design Rates ...		2,653 Ccf

ADOPTED TAX CALCULATIONS

Line No.	Item	1986 Adopted Rates	
		CCFT	FIT
1.	Operating Revenues	\$13,761	\$13,761
2.	Operating Expenses	10,790	10,790
3.	Taxes Other Than Income	500	500
4.	Tax Depreciation	860	860
5.	Interest	0	0
6.	State Income Tax	<u>-</u>	<u>200</u>
7.	Sub-total Deduction	12,150	12,350
8.	State Taxable Income	1,611	
9.	State Income Tax	200	-
10.	Federal Taxable Income	-	1,411
11.	Federal Income Tax	-	212
12.	Total Income Tax		412

APPENDIX E

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

Dear Customer:

Rancho Del Paradiso Water Company has requested authority to increase your rates for water service by 58.7%. The Commission, after considering all factors presented, has authorized the utility a 35.3% increase. For a customer using the system average of 360 cubic feet of water each month, this will mean an increase in the monthly bill from \$13.63 to \$18.74. There is no change in the \$97.20 per year Safe Drinking Water Bond Act surcharge which is added to the regular rates.

In establishing rates, the Commission's role is twofold. Rates 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 assured that the utility's request was thoroughly reviewed and evaluated by the Commission staff before this change in rates was granted.

You indicated in your letter that the distribution between service and quantity charges in the utility's current rates is inequitable, with the service charge portion being too high. Rancho Del Paradiso Water Company serves a resort area where water consumption is very low due to a high percentage of part-time residents. As with most water utilities, a substantial percentage of its operating expenses is fixed and does not vary with the amount of water consumed. Because water consumption in its service area is low and strongly seasonal the water utility would have difficulty covering fixed costs if the service charge part of the rates were not high enough. This would create cash flow difficulties and in time could result in deterioration of service to the customer. The current rates are designed to ensure that the service charge is high enough so that a large portion of the fixed costs can be covered.

We appreciate your concern in responding to the company's notice. If you have any further question about this increase, please contact Jess Sekhon at (415) 557-2145.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch