

PUBLIC UTILITIES COMMISSION OF STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3464
September 7, 1989

RESOLUTION

(RES. W-3464) ARMSTRONG VALLEY WATER COMPANY
(AVWC). ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING \$3,752 OR 4.94% ADDITIONAL ANNUAL REVENUE.

AVWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on April 12th, 1989, requested authority under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$6,480 or 8.60%. AVWC's request showed 1989 gross revenue of \$75,350 at present rates increasing to \$81,830 at proposed rate to produce a rate of return on rate base of 12.0%. AVWC serves 301 metered rate customers in service territories consisting of the unincorporated communities of Armstrong Valley, Lone Mountain subdivision and Noel Heights subdivision and vicinity, located about 1 1/2 miles north of, or 2 1/2 miles east of, the city limits of Guerneville, Sonoma county.

The present metered rates were established by Resolution W-3130, dated October 19, 1983, which authorized a general rate increase of 54.7%. AVWC customers also pay an annual surcharge for a SDWBA loan. This surcharge was instituted in three steps (D.93271, 7-7-81; D.82-09-063, 9-22-82; and D.88-01-037, 1-88).

The Branch made an independent analysis of AVWC's estimated summary of earnings at present, requested and adopted rates. Appendix A shows differences in revenue, expenses and rate base.

The Branch's estimate of revenue at present rates and at the utility's proposed rates is slightly higher than AVWC's. The Branch's estimate is based on the recorded average water consumption over the past five years, while AVWC based its estimate on 1988 recorded consumption. AVWC's and the Branch's consumption figures are different in both the 0 to 3 Ccf block and the over 3 Ccf block.

The differences in estimates for operating expenses are in other volume related expenses, materials, management salary, rate case expense and income tax.

The Branch's estimate of other volume-related expense is lower than AVWC's. The Branch's estimate is based on utility records of chlorine consumption for the past three years. AVWC inadvertently included the costs of weed killers and other chemicals in this category. Branch reassigned these expenses to the appropriate materials and supplies account.

The Branch's estimate of materials is higher than AWC's. AWC's estimate is based on an average of recorded data from 1984 through 1988 with some adjustments. The Branch's estimate is based on the past three years' adjusted recorded costs per customer and is escalated for inflation. As noted above, under other volume-related expenses, the Branch reassigned some of the chemical costs to materials expense. The Branch's escalation factors for this and other items were those provided by the Advisory Branch of the Commission Advisory and Compliance Division.

The Branch's estimate of management salary is lower than AWC's. The Branch accepts AWC's total estimate of \$3,000 as reasonable, but notes AWC's owner prepared this rate case filing, in addition to his regular duties. Branch reallocated \$200 per year, or \$600 total for a three year rate cycle from management salary to rate case expense.

AWC made no separate estimate for rate case expense. As discussed above, the Branch estimated \$200 per year or \$600 total amortized over the three year rate cycle.

Branch's estimate for income taxes reflects current rates under the Federal Tax Reform Act of 1986 (TRA-86) and the corresponding California Corporation Franchise Tax for 1989.

The difference in rate base between AWC and Branch is due to Branch including the cost of two additional service connections expected in the test year.

AWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 12.0%. The Branch recommends 10.75%, the midpoint of the 10.50% to 11.00% standard rate of return range recommended by the Accounting and Financial Branch of the Commission Advisory and Compliance Division for small water utilities with 100% equity financing.

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

A notice of the proposed rate increase and public meeting was mailed to each customer on April 21, 1989. One letter about an inadequate source of water for fire protection and one letter from the Guerneville Fire Protection District expressing support for the installation of a larger water main from the tank to a fire hydrant on an adjacent public road were received.

On May 16, 1989 an informal public meeting attended by five customers was held in Guerneville, adjacent to the service territory. A Branch representative conducted the meeting and AWC's owner was there to answer questions. Several customers expressed concern about an inadequate source of water for fire protection and inquired if a larger main could be installed from the tank to a fire hydrant on an adjacent public road. The issue was discussed at the meeting and the Branch representative recommended the customers and Fire District write letters to the Commission. This resulted in receiving the two letters mentioned above. Branch recommends that AWC be authorized to file an advice letter to begin recovering in rates the reasonable costs incurred in installing a larger size main from the tank to a fire hydrant on the adjacent public road, after the facilities have been placed in service.

A Branch engineer conducted a field investigation of AWC's water system from May 16th through the 18th. Visible portions of the system were inspected, pressures checked, and company records were researched. Measurements of pressure in the system were taken and found to be acceptable. Customers contacted during the investigation indicated that service was satisfactory and no major water supply or water quality problems were found.

According to The State Department of Health Services, AWC's water meets all primary and secondary drinking water standards currently in effect.

AWC's current rates consist of two annual metered service schedules for two different service areas. The Branch proposes to increase each by approximately the system overall average increase. The Branch also proposes to eliminate the two quantity blocks and combine them into one block as required by Commission policy established in Decision 86-05-064.

The Commission's rate design policy for water companies established by D.86-05-064 calls for one commodity block and specifies that up to 50% of fixed expenses should be recovered through service charges. AWC presently collects 43.5% of its fixed cost through metered service charge. Therefore, Branch concurs with AWC's proposal to retain the collection of the current 43.5% of fixed costs through metered service charge.

AWC proposes to withdraw Schedule No. 2RA, Annual Residential Flat Rate Service as it no longer provides this service and currently there are no flat rate customers. The Branch recommends that AWC be allowed to withdraw Schedule No. 2RA from its filed tariffs.

AWC's wells and infiltration gallery are in good condition and there is an adequate water supply. No additional conservation measures are needed.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$3,752 or 4.94%. This increase provides a 10.75% rate of return on the rate base in test year 1989.

At the Branch's recommended rates shown in Appendix B, the bill for a typical metered residential customer using an average of 1,000 cubic feet of water per month would increase from \$21.24 to \$22.45 (5.70%) per month not including the SDWBA surcharge. A comparison of the present and recommended rates is shown in Appendix C.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. AWC should be authorized to file an advice letter to begin recovering in rates the reasonable costs incurred in installing a larger size main from

the tank to a fire hydrant on the adjacent public road, after the facilities have been placed in service.

5. AVWC should cancel its Schedule No. 2RA, Annual Residential Flat Rate Service.

6. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

IT IS ORDERED that:

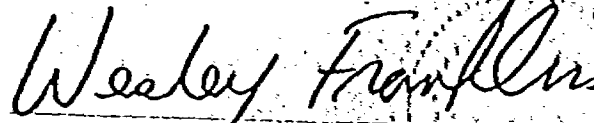
1. Authority is granted under Public Utilities Code Section 454 for Armstrong Valley Water Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1A and 2RA. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.

2. Armstrong Valley Water Company is authorized to file an advice letter to begin recovering in rates the reasonable costs incurred in installing a larger size main from the tank to a fire hydrant on the adjacent public road after the facilities have been placed in service.

3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on September 7, 1989. The following Commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners


WESLEY FRANKLIN
Acting Executive Director

APPENDIX A

ARMSTRONG VALLEY WATER COMPANY
SUMMARY OF EARNINGS
Test Year 1989

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Metered	\$75,350	\$81,830	\$75,980	\$81,460	\$79,732
Flat Rate	0	0	0	0	0
Total Revenue	75,350	81,830	75,980	81,460	79,732
Operating Expenses					
Purchased Power	5,420	5,420	5,420	5,420	5,420
Other volume related	340	340	100	100	100
Materials	1,370	1,370	1,790	1,790	1,790
Contract Work	2,420	2,420	2,420	2,420	2,420
Transportation	3,300	3,300	3,300	3,300	3,300
Management Salary	3,000	3,000	2,800	2,800	2,800
Office Salary	6,300	6,300	6,300	6,300	6,300
Employee Labor	13,000	13,000	13,000	13,000	13,000
Employee Benefits	5,370	5,370	5,370	5,370	5,370
Office Services & Rent	1,200	1,200	1,200	1,200	1,200
Office Supplies	1,490	1,490	1,490	1,490	1,490
Professional Services	2,850	2,850	2,850	2,850	2,850
Insurance	6,300	6,300	6,300	6,300	6,300
General	1,050	1,050	1,050	1,050	1,050
Rate Case Expense	0	0	200	200	200
Subtotal	53,410	53,410	53,590	53,590	53,590
Depreciation	4,390	4,390	4,390	4,390	4,390
Property Taxes	970	970	970	970	970
Payroll Taxes	1,970	1,970	1,970	1,970	1,970
Income Taxes	3,350	4,830	3,449	4,705	4,309
Total Deductions	64,090	65,570	64,369	65,625	65,229
Net Revenue	11,260	16,260	11,611	15,835	14,503
Rate Base					
Average Plant	197,060	197,060	197,710	197,710	197,710
Average Dep. Reserve	61,020	61,020	61,020	61,020	61,020
Net Plant	136,040	136,040	136,690	136,690	136,690
Less Advances	1,730	1,730	1,730	1,730	1,730
Contributions	3,240	3,240	3,240	3,240	3,240
Plus Working Cash	1,270	1,270	0	0	0
Mat'l. & Supplies	3,190	3,190	3,190	3,190	3,190
Rate Base	135,530	135,530	134,910	134,910	134,910
Rate of Return	8.31%	12.00%	8.61%	11.74%	10.75%

APPENDIX B
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ARMSTRONG VALLEY WATER COMPANY

Schedule No. A-1A

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis

TERRITORY

The unincorporated community of Armstrong Woods Valley, Lone Mountain Subdivision and vicinity, located approximately 1-1/2 miles north of the city limits of Guerneville, Sonoma County

RATES

Service Charge:

	<u>Per Meter Per Year</u>	<u>SDWBA Yearly Surcharge</u>
For 5/8 x 3/4-inch meter	\$100.20 (I)	\$118.20
For 3/4-inch meter	110.40	177.30
For 1-inch meter	151.20	295.50
For 1-1/2-inch meter	201.60	591.00
For 2-inch meter	273.00 (I)	945.60

Quantity Rate:

All water, per 100 cu.ft. 1.41 (C)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

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(T)

(Continued)

APPENDIX B
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ARMSTRONG VALLEY WATER COMPANY

Schedule No. A-1A

ANNUAL METERED SERVICE
(Continued)

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 in accordance with the utility's established billing periods for water used. (C)
(L)
(L)
2. The opening bill for metered service, except for 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 the 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 year. The balance of the payment of the initial charge shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial charges shall be due the customer. (C)
3. The established billing cycle for water used is every two months. The billing cycle may be at longer intervals during winter season. (L)
(L)
4. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. The surcharge is specifically for the repayment of the California SDWBA loan authorized by D.88-01-037. (T)
(T)
5. All bills subject to reimbursement fee set forth on Schedule No. UF. (L)
(L)

APPENDIX B
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ARMSTRONG VALLEY WATER COMPANY

Schedule No. N-1A

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis

TERRITORY

The unincorporated area known as Noel Heights Subdivision located on the east side of State Highway 116, approximately 2-1/2 miles southeasterly of the Guerneville City Limits, Sonoma County

RATES

Service Charge:

	<u>Per Meter Per Year</u>	<u>SDWBA Yearly Surcharge</u>
For 5/8 x 3/4-inch meter	\$100.20 (I)	\$ 72.00
For 3/4-inch meter	110.40	108.00
For 1-inch meter	151.20	180.00
For 1-1/2-inch meter	201.60	260.00
For 2-inch meter	273.00 (I)	576.00

Quantity Rate:

All water, per 100 cu.ft. 1.41 (C)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

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(Continued)

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ARMSTRONG VALLEY WATER COMPANY

Schedule No. N-1A

ANNUAL METERED SERVICE
(Continued)

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 in accordance with the utility's established billing periods for water used. (C)
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(T)
5. All bills subject to reimbursement fee set forth on Schedule No. UF. (L)
(L)

APPENDIX C

ARMSTRONG VALLEY WATER COMPANY

COMPARISON OF RATES

Service Charge

	<u>Per Meter Per Year</u>		<u>Amount Increase</u>	<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>		
For 5/8 x 3/4-inch meter...	\$ 96.00	\$100.20	\$ 4.20	4.38%
For 3/4-inch meter...	105.00	110.40	5.40	5.14
For 1-inch meter...	144.00	151.20	7.20	5.00
For 1-1/2-inch meter...	192.00	201.60	9.60	5.00
For 2-inch meter...	260.00	273.00	13.00	5.00

Quantity Rates

	<u>Present Rates</u>	<u>Recommended Rate</u>
First 300 cu. ft., per 100 cu. ft.	\$ 1.10	
Over 300 cu. ft., per 100 cu. ft.	1.42	
All water, per 100 cu. ft.		\$ 1.41

A monthly bill comparison for a resident with a 5/8 x 3/4-inch meter is shown below:

<u>Monthly Usage</u> 100 cu. ft	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 8.00	\$ 8.35	\$ 0.35	4.4%
3	11.30	12.58	1.28	11.3
5* (average)	14.14	15.40	1.26	8.9
10** (average)	21.24	22.45	1.21	5.7
15	28.34	29.50	1.16	4.1
20	35.44	36.55	1.11	3.1
30	49.64	50.65	1.01	2.0
50	78.04	78.85	0.81	1.0

* Noel Heights service area

** Armstrong Valley service area

APPENDIX D
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ARMSTRONG VALLEY WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989

Federal Tax Rate:	15%
State Tax Rate:	9.3%
Local Franchise Rate:	0.0%

Expenses:

1. Purchased Power

Pacific Gas & Electric Co.	
Rate Schedule	A-1
Effective Date of Schedule	1/1/89
Kwh Used Total	50,980
Kwh Used - Summer	31,716
Kwh Used - Winter	19,264
\$/Kwh - Summer	0.10956
\$/Kwh - Winter	0.09004
Summer Charge	\$ 3,475
Winter Charge	1,735
Service Charge	210
Total Purchased Power	5,420

2. Purchased Water

None

3. Insurance Expenses

General Liability, including auto	\$ 6,300
Workmen's Compensation	5,320
	980

4. Payroll

Management Salary	\$ 22,100
Office Salary	2,800
Employee Labor	6,300
	13,000

5. Ad Valorem Taxes Total

Noel Heights Taxes	\$ 970
Noel Heights Tax Rate	256
Noel Heights Assessed Value	1.060%
Armstrong Taxes	\$ 24,120
Armstrong Tax Rate	698
Armstrong Assessed Value	1.060%
Additional Special Assessment	\$ 65,880
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6. Water Testing (in contract work)

\$ 1,420

APPENDIX D
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ARMSTRONG VALLEY WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989

Service Connections

Metered		
5/8 x 3/4-inch	.....	297
3/4-inch	.....	2
1-inch	.....	1
1-1/2-inch	.....	0
2-inch	.....	1
Total Metered		301
Flat Rate	.....	None
Metered Water Sales Used to Design Rates:		35,000 Ccf

ADOPTED TAX CALCULATIONS
Test Year 1989

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 79,732	\$ 79,732
2.	Expenses	53,590	53,590
3.	Taxes Other Than Income	2,940	2,940
4.	Depreciation	4,390	4,390
5.	Interest	0	0
6.	Taxable Income for State Tax	18,812	
7.	State Tax @ 9.3% \$600 min	1,750	1,750
8.	Taxable Income for FIT		17,062
9.	Federal Income Tax @ 15%		2,559
10.	Total Income Tax		4,309

(END OF APPENDIX D)