

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3465
September 7, 1989

RESOLUTION

(RES. W-3465) RANCHO DEL PARADISO WATER COMPANY
(RDFWC). ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING \$5,660 OR 39.9% ADDITIONAL ANNUAL REVENUE.

RDFWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on April 11th, 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 \$5,660 or 40.75%. RDFWC's request showed 1989 gross revenue of \$13,890 at present rates increasing to \$19,550 at proposed rates to produce a rate of return on rate base of 12.0%. RDFWC serves 61 metered rate customers in an unincorporated area known as Rancho Del Paradiso located along the southern bank of the Russian River near Duncans Mills, Sonoma County.

The present metered rates were established on March 25, 1987 by Resolution W-3355, which authorized a general rate increase of 35.3%. RDFWC customers also pay an annual surcharge for a Safe Drinking Water Bond Act (SDWBA) loan. This surcharge was instituted in two steps (D.84-02-045, dated February 16, 1984; and Resolution W-3312, dated May 7 1986).

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

The Branch's estimate of revenue is slightly higher than RDFWC's. The Branch's estimate of revenue is based on the recorded average water consumption over the past five years, while RDFWC based its estimate on 1988 recorded consumption. The Branch believes that a consumption pattern based on long term usage is more consistent with the expected usage for test year 1989.

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

The Branch's estimate of other volume-related expense is lower than RDFWC's. The Branch's estimate is based on utility records of chlorine consumption for the past three years. RDFWC 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 RDFWC's. RDFWC'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 RDFWC's. The Branch accepts RDFWC's total estimate of \$600 as reasonable, but notes RDFWC'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.

RDFWC made no separate estimate for rate case expense. As discussed above, the Branch estimated \$200 per year or \$600 total regulatory expense for this rate case and amortized it 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 rate for 1989.

RDFWC'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.

RDFWC was informed of the Branch's differing views of revenues and expenses 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. No letters regarding the increase have been received by the Branch.

On May 17, 1989 an informal public meeting attended by fifteen customers was held at the Casini Campground Hall, adjacent to the service territory. A Branch representative conducted the meeting and RDFWC's owner was there to answer questions. The customers had no significant recent complaints about the rate increase, service, or water quality, but had experienced quality problems in the past during times of high creek flow.

A Branch engineer conducted a field investigation of RDFWC'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 Sonoma County Environmental Health Division, RDFWC's water meets all primary and secondary drinking water standards currently in effect.

RDFWC's current rates consist of an annual metered service schedule which contains one quantity block and a service charge. The Branch concurs with

RDFWC's proposal to increase each by approximately the system overall average increase.

The current rate structure consists of a service charge designed to recover approximately 65% of fixed costs. 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. RDFWC is such an area with approximately 50% of the connections serving second homes.

D.86-05-064 established 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 RDFWC'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 costs to continue.

RDFWC has an adequate water supply. No additional conservation measures are needed.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$5,660 or 39.9%. 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 residential customer using an average of 400 cubic feet of water per month would increase from \$19.47 to \$27.24 (39.9%) per month. A comparison of the present and recommended rates is shown in Appendix C.

FINDINGS

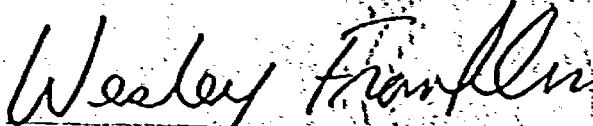
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. 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 Rancho Del Paradiso 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 No. 1A. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedule shall be the date of filing.
2. 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

RANCHO DEL PARADISO WATER COMPANY
SUMMARY OF EARNINGS
Test Year 1989

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Metered	\$13,890	\$19,550	\$14,200	\$19,990	\$19,859
Flat Rate	0	0	0	0	0
Total Revenue	13,890	19,550	14,200	19,990	19,859
<u>Operating Expenses</u>					
Water Easement Fee	300	300	300	300	300
Purchased Power	730	730	730	730	730
Other volume related	110	110	30	30	30
Materials	1,000	1,000	1,070	1,070	1,070
Contract Work	1,170	1,170	1,170	1,170	1,170
Transportation	630	630	630	630	630
Management Salary	600	600	400	400	400
Office Salary	1,500	1,500	1,500	1,500	1,500
Employee Labor	4,800	4,800	4,970	4,970	4,970
Employee Benefits	1,600	1,600	1,600	1,600	1,600
Office Services & Rent	600	600	600	600	600
Office Supplies	330	330	330	330	330
Professional Services	550	550	540	540	540
Insurance	1,630	1,630	1,630	1,630	1,630
General	280	280	200	200	200
Rate Case Expense	0	0	200	200	200
Subtotal	15,830	15,830	15,900	15,900	15,900
Depreciation	990	990	990	990	990
Property Taxes	76	76	76	76	76
Payroll Taxes	755	755	755	755	755
Income Taxes	0	440	600	855	831
Total Deductions	17,651	18,091	18,321	18,576	18,552
<u>Net Revenue</u>	(3,761)	1,459	(4,121)	1,414	1,307
<u>Rate Base</u>					
Average Plant	28,230	28,230	28,230	28,230	28,230
Average Dep. Reserve	16,670	16,670	16,670	16,670	16,670
Net Plant	11,560	11,560	11,560	11,560	11,560
Less Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus Working Cash	0	0	0	0	0
Mat'l. & Supplies	600	600	600	600	600
Rate Base	12,160	12,160	12,160	12,160	12,160
Rate of Return	(loss)	12.00%	(loss)	11.63%	10.75%

APPENDIX B
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RANCHO DEL PARADISO WATER COMPANY

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

Service Charge:	<u>Per Meter Per Year</u>	<u>SDWBA Yearly Surcharge</u>
For 5/8x3/4-inch meter.....	\$204.00 (I)	\$ 97.20
For 3/4-inch meter.....	306.00	145.80
For 1-inch meter.....	510.00 (I)	243.00

Quantity Rate:

All water, per 100 cu. ft.....	2.56 (I)	(D)
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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. (T)
(T)

(Continued)

APPENDIX B
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RANCHO DEL PARADISO WATER COMPANY

Schedule No. 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.
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 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 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 charge shall be due the customer.
3. The established billing cycle for water used is every two months. Billing cycle may be at longer intervals during winter season.
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.84-02-045.
5. All bill subject to reimbursement fee set forth on Schedule No. UF.

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APPENDIX C

RANCHO DEL PARADISO WATER COMPANY

COMPARISON OF RATESService 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...	\$145.80	\$204.00	\$ 58.20	39.9%
For 3/4-inch meter...	219.00	306.00	87.00	39.9
For 1-inch meter...	365.40	510.00	144.60	39.9

Quantity Charge

All water, per 100 cu.ft...	1.83	2.56	0.73	39.9
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A monthly bill comparison for a resident with a 5/8 x 3/4-inch meter is shown below:

<u>Monthly Usage 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 12.15	\$ 17.00	\$ 4.85	39.9%
3	17.64	24.68	7.04	39.9
4 (average)	19.47	27.24	7.77	39.9
5	21.30	29.80	8.50	39.9
10	30.45	42.60	12.15	39.9
15	39.60	55.40	15.80	39.9
20	48.75	68.20	19.45	39.9
30	67.05	93.80	26.75	39.9

APPENDIX D
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RANCHO DEL PARADISO 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	5,276
Kwh Used - Summer	3,040
Kwh Used - Winter	2,236
\$/kwh - Summer	0.10956
\$/kwh - Winter	0.09004
Summer Charge	\$ 333
Winter Charge	201
Service Charge	196
Total Purchased Power	730

2. Purchased Water

None

3. Water Easement Fee

\$ 300

4. Insurance Expenses

\$ 1,630

General Liability, including Auto

1,019

Flood

208

Workmen's Compensation

403

4. Payroll

\$ 6,870

Management Salary

400

Office Salary

1,500

Employee Labor

4,970

5. Ad Valorem Taxes

\$ 76

Tax Rate

1.0213%

Assessed Value

\$ 7,408

6. Water Testing (in contract)

\$ 920

APPENDIX D
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RANCHO DEL PARADISO WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989

Service Connections

Metered		
5/8 x 3/4-inch	61	
3/4-inch	0	
1-inch	0	
Flat Rate	0	
Metered Water Sales Used to Design Rates:	2,900 Ccf	

ADOPTED TAX CALCULATIONS
Test Year 1989

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 19,859	\$ 19,859
2.	Expenses	15,900	15,900
3.	Taxes Other Than Income	831	831
4.	Depreciation	990	990
5.	Interest	0	0
6.	Taxable Income for State Tax	2,138	
7.	State Tax @ 9.3% (\$600 Minimum)	600	600
8.	Taxable Income for FIT		1,538
9.	Federal Income Tax @ 15%		231
10.	Total Income Tax		831

(END OF APPENDIX D)