

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3468
October 12, 1989

R E S O L U T I O N

RES. W-3468) GEYSERVILLE WATER WORKS (GWW). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$10,356 OR 32.36% ADDITIONAL REVENUE.

GWW, by draft advice letter accepted by the Water Utilities Branch (Branch) on April 12, 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 \$12,990 or 40%. GWW's request shows 1989 gross revenue of \$32,318 at present rates increasing to \$45,308 at proposed rates to produce a rate of return on rate base of 10.49%. GWW serves 112 metered and 98 flat rate customers in Geyserville, Sonoma County.

The present rate became effective December 19, 1984 pursuant to Resolution W-3220 which authorized a general rate increase producing \$10,250 or 60.0% additional annual revenue.

The Branch made an independent analysis of GWW's summary of earnings. Appendix A shows GWW's and Branch's estimated summary of earnings at present, requested and adopted rates for test year 1989. Appendix A also shows differences in revenues, expenses and rate base.

The Branch's estimates of revenue is lower than GWW's at present and at proposed rates. The Branch's estimate is based on a declining number of flat rate customers and corresponding increase in metered customers through the test year. GWW inadvertently miscalculated its revenues at the proposed rates.

The significant differences in estimates for operating expenses are in purchased power, other volume related expenses, employee labor, contract work, transportation, office salaries, office supplies and expenses, professional services, insurance, general expenses, payroll taxes, income taxes and depreciation expense.

The Branch's estimate of purchased power is slightly lower than GWW's. GWW used actual energy consumed in 1988 for its test year estimate. The Branch's estimate is based on the average recorded water production during the past five years and the energy usage per unit of water pumped from a pump currently in use under its present conditions. The Branch used a five year average because water pumped per customer has fluctuated over the last five years, showing no apparent trend.

The Branch's estimate for other volume related expense is lower than GWW's because the Branch based its estimate on a detailed review of vouchers

provided by the utility for the costs of chemicals used in 1988 and then escalated these amounts for the test year. The escalation factors used for this account and for other accounts were those recommended by the Advisory Branch of the Commission Advisory and Compliance Division. GWW provided no explanation for its estimates.

The Branch's estimate for employee labor is lower than GWW's. The Branch's estimate is based on the cost of a part time meter reader, while GWW includes the cost of non-recurring maintenance labor which the Branch discovered was also included in GWW's estimate of contract work. The Branch has corrected the double accounting and re-allocated the cost of contract labor to its proper account, contract work.

The Branch's estimate for contract work is higher than GWW's. Both the Branch and GWW used a five year recorded average of contract work expenses including the cost of maintenance labor. In addition, the Branch's estimate includes cost of recently mandated laboratory tests which GWW is required by the State Department of Health Services (DHS) to perform each year.

The Branch's estimate for transportation expense is lower than GWW's primarily because GWW inadvertently included a portion of the capitalized cost of the vehicle owned by GWW's owner in expenses. Both the Branch and GWW concur on total utility related travel mileage. The Branch then applied a rate of \$0.24 per mile, the rate allowed by the Internal Revenue Service for business mileage.

The Branch's estimate for office salary is lower than GWW's because the Branch's figure was based on a breakdown of actual time spent on utility related tasks and the actual wage rate the company pays. GWW escalated recorded 1987 expense which included salary for non-utility related work.

The Branch's estimate of \$500 for office supplies and expenses is significantly lower than GWW's \$3,890. The Branch discovered a misallocated \$1,890 salary for a meter reader in this account and an unsubstantiated amount of \$2,000 for office supplies. The Branch has included the salary of the meter reader in employee labor expense (\$960 per year). The Branch's estimate for this account was obtained by applying pertinent escalation factors to the 1984 adopted expense for office supplies.

The Branch's estimate for professional services is lower than GWW's. GWW's estimate includes a \$300 fee for an accountant, and a \$2,250 fee for a consultant amortized over three years. GWW provided no explanation for its estimate of the consultant's fee, which was considerably higher than fees charged to other, similarly situated small water companies for like work. The Branch's estimate included the requested accountant's yearly fee of \$300, and a regulatory consultant's fee of \$1,010 or approximately \$340 amortized over three years rate cycle period. The Branch's estimate of the consultant's fee was based on an average consultant's fee allowed in recent rate cases for utilities of comparable size in which the utilities were represented by consultants.

The Branch's estimate for insurance is lower than GWW's because GWW included the cost of a liability insurance for a truck that GWW did not own. The Branch's estimate excluded the liability insurance for the truck.

The Branch's estimate for general expenses is lower than GW's. The Branch based its estimate on a breakdown of inflation adjusted actual expenses that could not be included in other operating expense accounts. GW's estimate was based on an unadjusted recorded average of expenses for the last five years.

The Branch's estimate for depreciation expense is lower than GW's because of the difference in estimated average plant that is used to determine depreciation expense. The Branch agreed with GW on the composite depreciation rate used to compute the expense.

The differences in estimates for rate base are in average plant in service, average depreciation reserve, contributions, working cash, and materials and supplies.

The Branch's estimate of \$209,005 for average plant significantly differs from GW's corresponding estimate of \$243,880. Some of the reasons are: 1988 additions; capitalized labor rates; and the disallowance of a truck and excavation equipment. In addition, some of the major differences in plant additions for the test year 1989 are explained in the following paragraphs:

1. GW, in order to comply with the DHS's requirement of a cross connection control program, estimated a cost of \$5,000, which GW included in test year average plant. The Branch concurs with DHS on enforcing GW's compliance to implement the program as detailed by the DHS, but notes that GW has no specific plans to carry this program out. The Branch excluded these costs, and recommends GW be authorized to file an advice letter to begin recovering the reasonable cost of the cross-connection control program after the program has been put into operation.

2. GW proposes to replace the present 20 horsepower (HP) pump with a 30 HP pump with a pumping capacity of 240 gallons per minute at a cost of \$10,000 to meet the minimum fire flow requirements by the fire department and DHS. GW's present system does not meet the minimum requirements. The Branch believes the purchase and installation of a 30 HP pump to replace the present 22-year old pump will result in improved service and that it will render the water system more reliable and efficient, but notes no specific plans to install it. The Branch excluded this cost and recommends that GW be authorized to file an advice letter to begin recovering the reasonable cost of replacing the 20 HP pump after the new pump has been placed into operation.

3. GW proposes to install approximately 2,050 feet of six-inch main, of which one-half will be additions and half replacement. A portion of the planned main replacement will be to serve a new development. The developer's application filed with DHS for approval to construct 50 homes in the proposed area was denied because GW had inadequate water storage and low pumping capacity. DHS indicated that GW would need an additional 175,000 gallons of storage capacity, an additional 50 gallons per minute of source capacity, and all water mains to the development would have to be at least six-inches in diameter. Branch agrees that conditions set forward by DHS are necessary and that they be complied with before the construction of the new homes is allowed. However, the Branch believes that the main replacement program proposed by GW to accommodate service to a development will benefit new homes and provide no significant system wide benefit to the present customers. The cost for main replacement in this area should be

paid by the developer pursuant to GWW's filed Tariff Rule 15, Main Extensions. The Branch concurs with GWW's other proposal to replace certain old undersized water mains of two and four inches in diameter. Since there are no clear indications that the replacement of these mains will be completed and put into service before the new rates become effective, the Branch recommends excluding the cost of upgrading the water system from test year plant, and that GWW be authorized to file an advice letter to begin recovering the reasonable cost of the main additions and replacement after the improvements have been put into operations.

4. GWW's proposed average plant additions include \$5,000 for installation of a production meter at its water source. The Branch agrees that this meter is necessary, but notes there are no specific plans to install it. The Branch recommends that GWW be directed to install a production meter at its water source and GWW be authorized to file an advice letter to recover the reasonable costs after it has been placed in service.

The Branch agreed with GWW on the 2.6% composite depreciation rate used to determine depreciation expenses and depreciation reserve. The minor differences in the depreciation reserve is due to the Branch's lower estimate for average plant on which depreciation expenses and reserve are computed.

The Branch's estimate of contributions in aid of construction is lower than GWW's because GWW inadvertently included gross contributions rather than net depreciated contributions. Because net contributions are subtracted from average plant to obtain rate base, GWW's overstatement of contributions has resulted in a lower rate base. The Branch corrected the error and estimated a net contributed plant of \$77,549.

The Branch's estimate of working cash is higher than GWW's. GWW estimated working cash allowance of \$500 representing the minimum balance required by its bank while the Branch estimated a working cash allowance of \$3,500 by using the revised simplified working cash procedure adopted by the Commission on January 27, 1989.

GWW's draft advice letter requested rates which it estimated would produce a return on rate base of 10.49%. 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, 100% equity financed utilities.

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

A notice of the proposed rate increase and public meeting was mailed to each customer on April 20, 1989. No letters of protest were received.

On May 10, 1989 an informal public meeting attended by six members of the public was held in Geyserville. A Branch representative conducted the meeting and GWW's owner and his consultant were there to answer questions. Questions were asked regarding the past and present number of metered customers compared to flat rate customers; the reasonableness of a 40% increase; the effect of new housing on rates; and the present number of customers. Several customers stated that they were satisfied with the water and generally good service.

Branch engineers conducted a field investigation of GW's water system on May 11, 1989. Visible portions of the system were inspected, pressures checked, and the company's records reviewed. Customers contacted during the investigation indicated that there were no major water supply or water quality problems.

GW obtains its water from a well that is in fairly good condition and has an abundant source of ground water supply. The utility has had no water shortages in the past either during the 1976 drought or the current dry period. About 53% of GW's connections are metered. Recent improvements in the utility's distribution system, and the replacement of worn pipes, will likely prove to have lowered water losses from past levels. No additional conservation measures are needed at this time.

GW's current rates consist of a metered service schedule and a flat rate schedule. The Branch proposes to increase all schedules by approximately the system overall average percentage increase.

The Commission's metered rate design policy for water utilities outlined in D.86-05-064 established a goal to recover up to 50% of a water utility's fixed expenses through the metered service charges. The Branch's recommended metered rates are designed to recover revenue in proportion to 50% of the utility's fixed costs and a single metered quantity rate.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$10,356 or 32.3%. 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 monthly bill for a typical residential flat rate customer would increase from \$10.24 to \$13.60. The monthly bill for a typical residential customer metered customer with a 5/8 x 3/4-inch meter using system average of 27 Ccf per month would increase from \$13.83 to \$18.88. 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. GW should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at its source of supply.

5. GW should be authorized to recover the reasonable costs of the following programs after they have been placed into service:
- a. A cross-connection control program.
 - b. Replacement of the 20 HP pump with a new 30 HP pump.
 - c. Replacement of certain portions of two and four-inch mains with the same length of six-inch main as indicated on the draft advice letter.
 - d. The installation which is mentioned in Finding No. 4.
6. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

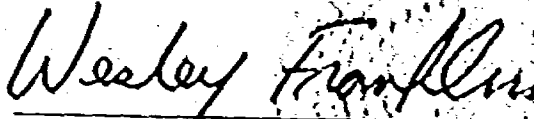
IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Geyserville Water Works 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 Schedules 1 and 2. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.
2. Geyserville Water Works shall install a suitable measuring device to determine water production at its source of supply within one year of the effective date of this resolution.
3. Geyserville Water Works is authorized to file an advice letter to begin recovering the reasonable cost of the following items after they have been placed into service:
 - a. The installation of a suitable water pump to replace the existing 20 horsepower pump at the existing well.
 - b. The implementation of a cross-connection control program.
 - c. The replacement of certain portions of two and four-inch existing mains with a six-inch main of the same length as indicated in the draft advice letter.
 - d. The installation ordered in Ordering Paragraph number 2.
4. This resolution is effective today.

Res. W-3468

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on October 12, 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

WESLEY FRANKLIN
Acting Executive Director



APPENDIX A

GEYSERVILLE WATER WORKS
SUMMARY OF EARNINGS
Test Year 1989

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Flat Rate	\$ 11,928	\$ 16,727	\$ 11,607	\$ 16,273	\$ 15,362
Metered	20,390	28,581	20,399	28,598	27,000
Total Revenue	32,318	45,308	32,006	44,871	42,362
Operating Expenses					
Purchased Power	6,395	6,395	5,868	5,868	5,868
Other Volume Related	600	600	324	324	324
Employee Labor	1,200	1,200	960	960	960
Contract Work	2,000	2,000	4,250	4,250	4,250
Transportation	1,500	1,500	720	720	720
Office Salaries	5,040	5,040	4,536	4,536	4,536
Management Salaries	5,670	5,670	5,692	5,692	5,692
Office Serv. & Rent	900	900	900	900	900
Office Supplies	3,890	3,890	500	500	500
Professional Services	1,050	1,050	640	640	640
Insurance	4,289	4,289	3,650	3,650	3,650
General Expenses	1,500	1,500	1,093	1,093	1,093
Subtotal	34,034	34,034	29,133	29,133	29,133
Depreciation Exp.	3,177	3,177	2,270	2,270	2,270
Payroll Tax	0	1,479	1,153	1,153	1,153
Property Tax	235	235	235	235	235
Income Tax	0	0	600	2,767	2,192
Total Deductions	37,446	38,925	33,391	35,558	34,983
Net Revenue	(5,128)	6,383	(1,385)	9,313	7,379
Average Plant	243,880	243,880	209,005	209,005	209,005
Avg. Depr. Reserve	67,850	67,850	66,316	66,316	66,316
Net Plant	176,030	176,030	142,689	142,689	142,689
Less: Contributions	116,690	116,690	77,549	77,549	77,549
Advances	0	0	0	0	0
Plus: Working Cash	500	500	3,500	3,500	3,500
Mat'l & Suppl.	1,000	1,000	0	0	0
Rate Base	60,840	60,840	68,640	68,640	68,640
Rate of Return	(Loss)	10.49%	(Loss)	13.57%	10.75%

APPENDIX B
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GEYSERVILLE WATER WORKS

Schedule No.1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Geyserville and vicinity, Sonoma County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter.....	\$ 7.00 (I)
For 3/4-inch meter.....	9.60 (I)
For 1-inch meter.....	13.20 (I)
For 1 1/2-inch meter.....	17.10 (I)
For 2-inch meter.....	23.80 (I)
Quantity Rates:	
All use, per 100 cu. ft.	0.44 (I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

APPENDIX B
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GEYSERVILLE WATER WORKS

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Geyserville and vicinity, Sonoma County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. For a single-family residential unit.....	\$13.60	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection.....	9.50	(I)
2. For small commercial establishments.....	10.90	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter. (N)
2. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

APPENDIX C

GEYSERVILLE WATER WORKS

COMPARISON OF RATES

METERED SERVICE

	<u>Per Service Connection Per Month</u>			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
<u>Service Charge</u>				
For 5/8 x 3/4-inch meter..	\$ 5.25	\$ 7.00	\$ 1.75	33.3%
For 3/4-inch meter...	7.25	9.60	2.35	32.4%
For 1-inch meter...	10.00	13.20	3.20	32.0%
For 1 1/2-inch meter...	13.00	17.20	4.20	32.3%
For 2-inch meter...	18.00	23.80	5.80	32.2%

Quantity Rates

First 300 cu.ft., per 100 cu.ft.	0.22	--	--	--
All over 300 cu.ft., per 100 cu.ft.	0.33	--	--	--
All use, per 100 cu.ft.....	--	0.44	--	--

FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount</u>	<u>Percentage</u>
For a single-family residential unit.....	\$10.24	\$13.60	\$ 3.36	32.8%
For each additional single-family residential unit on the same premises and served from the same service connection.....	7.20	9.50	2.30	31.9%
For small commercial establishments	8.24	10.90	2.66	32.3%

A monthly bill comparison for a customer 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>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
0	5.25	7.00	1.75	33.3%
3	5.91	8.32	2.41	40.8%
5	6.57	9.20	2.63	40.0%
10	8.22	11.40	3.18	38.7%
15	9.87	13.60	3.73	37.8%
20	11.52	15.80	4.28	37.2%
27 (Avg.)	13.83	18.88	5.05	36.5%
30	14.82	20.20	5.38	36.3%
50	21.42	29.00	7.58	35.4%
100	37.92	51.00	13.08	34.5%

APPENDIX D
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GEYSERVILLE WATER WORKS

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 and Electric Company	
Rate Schedule	A-1
Effective Date of Schedule	1/1/89
kwh Used Total	56,006
kwh Used Summer	37,899
kwh Used Winter	18,107
\$/kwh - Summer	0.10956
\$/kwh - Winter	0.09004
Summer Charge	\$ 4,152
Winter Charge	1,630
Service Charge	75
Energy Commission Charge	11
Total Purchased Power	\$ 5,868

2. Payroll and Employee Benefits:

Employee Labor	\$ 960
Office Salary	4,536
Management Salary	5,692
Total Payroll	\$ 11,188
Payroll Taxes	\$ 1,153

3. Ad Valorem Taxes:

Tax Rate Used	1.0%
Assessed Value	\$ 23,500
Total Taxes (Avg.)	\$ 235

4. Water Testing (in Contract Work) \$ 1,512

APPENDIX D
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GEYSERVILLE WATER WORKS

ADOPTED QUANTITIES
Test Year 1989

Service Connections:

Flat Rate

Single Family Residential.....	83
Additional Unit.....	6
Commercial.....	9
Flat Rate Total.....	<u>98</u>

Metered Rate

Meter Size	
5/8 x 3/4-inch.....	102
3/4-inch.....	0
1-inch.....	1
1-1/2-inch.....	4
2-inch.....	5
Metered Total.....	<u>112</u>

Metered Water Sales Used to Design Rates:..... 36,857 Ccf

ADOPTED INCOME TAX CALCULATIONS
Test Year 1989

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 42,362	\$ 42,362
2.	Expenses	29,133	29,133
3.	Taxes Other Than Income	1,388	1,388
4.	Depreciation	2,270	2,270
5.	Interest	0	0
6.	Taxable Income for State Tax	9,571	
7.	State Tax @ 9.3% (\$600 Minimum)	890	890
8.	Taxable Income for FIT		8,681
9.	Federal Income Tax @ 15%		1,302
10.	Total Income Tax		2,192

(END OF APPENDIX D)