

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3469
November 3, 1989

RESOLUTION

(RES. W-3469) BENBOW WATER COMPANY (BWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$8,148
OR 19.6% ADDITIONAL ANNUAL REVENUE.

BWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on May 15, 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 \$12,299 or 28.5%. BWC estimates that 1989 gross revenues of \$43,146 at present rates would increase to \$55,445 at proposed rates to produce a rate of return on the rate base of 7.63%. BWC serves 87 metered customers in an unincorporated community of Benbow and vicinity, located about 3 miles south of Garberville, Humboldt County.

The present rates became effective August 25, 1982 pursuant to Resolution W-3011 which authorized a general rate increase of \$10,100 or 44.6%. BWC customers also pay an annual SDWA surcharge which was authorized in the amount of \$9,660 by Decision 93798 dated December 1, 1981.

The Branch made an independent analysis of BWC's summary of earnings. Appendix A shows BWC's and the 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 metered revenue are slightly lower than BWC's because the Branch's estimate of water consumption in the test year is lower. The Branch's consumption estimate is based on an average of the past three years' recorded data while BWC's is based on 1988 recorded data. The Branch used a three year average because water consumption per customer has fluctuated over the three years, showing no apparent trend.

The differences in estimates for operating expenses are in purchased power, other volume related expenses, transportation, employee labor, depreciation, property taxes, payroll taxes, and income taxes.

The Branch's estimate for purchased power expense of \$4,960 is \$208 less than BWC's due to differences in water consumption estimates discussed earlier.

The Branch's estimate for volume related expenses of \$150 is higher than BWC's corresponding estimate of \$100. The Branch's estimate is based on 1988 recorded chlorine consumption escalated to 1989. 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. BWC provided no explanation for its estimates.

The Branch's estimate of transportation expense is lower than BWC's. BWC's estimate of \$2,838 includes \$900 for rental of a backhoe used for main replacement. According to the guidelines of the Uniform System of Accounts, the Branch reassigned this expense to the plant in service account.

The Branch's estimate of employee labor is lower than BWC's. BWC's estimate of \$2,700 includes \$1,000 for labor for a main replacement project. The Branch excluded this amount from its estimate of employee labor but properly included in plant in service account.

The Branch's estimate of depreciation expense of \$2,930 is lower than BWC's corresponding estimate of \$3,306. Both the Branch and BWC used a 2.4% depreciation accrual rate for computing depreciation expense. BWC inadvertently included depreciation of contributed plant in its estimates.

The Branch's estimate of property taxes is lower than BWC's. BWC used its total property tax payments for the 1986-1987 and 1987-1988 tax years while the Branch used half of the recorded 1988-1989 property tax bill and half of the estimated 1989-1990 property tax bill.

The Branch's estimate of payroll taxes is higher than BWC's. The Branch computed payroll taxes by using its estimates of employee labor and management salary. BWC inadvertently did not include management salary in its estimates for payroll taxes.

The Branch's estimate of income taxes reflects current tax rates under the Federal Tax Reform Act of 1986 and the California Corporation Franchise Tax rate for 1989. BWC provided no explanation of its estimate of income taxes.

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

The Branch's estimate for average plant in service is lower than BWC's. BWC inadvertently included \$99,849 of plant additions financed by its Safe Drinking Water Bond Act (SDWBA) loan. The Branch's estimate properly excludes this amount. As discussed previously, the Branch estimate for plant in service includes \$1,000 for capitalized labor and \$900 for backhoe rental expense.

The Branch's estimate of depreciation reserve is slightly higher than BWC's. The Branch's estimate reflects its lower estimate of plant in service. The Branch's estimate also includes certain plant additions placed in service during test year 1989, which BWC inadvertently did not include.

The Branch's estimate of contributions is lower than BWC's. BWC inadvertently used its expected end of year balance, while the Branch used the average figure.

The Branch used the new simplified method adopted by the Commission on January 27, 1989 for calculating its working cash allowance estimates. BWC used the old version of "Simplified Basis for the Determination of Working Cash Allowance" in Standard Practice U-16.

BWC's draft advice letter requested rates which it estimated would produce a return on rate base of 7.63%. 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.

BWC 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 was mailed to each customer on May 31, 1989. One letter protested the increase and complained of low pressure. The Branch engineer investigated this problem and observed during field inspection that BWC provided approximately 40 psi pressure at the customer's meter connection, thus meeting the minimum requirements of G.O. 103. However, the customer uses water about 60 feet uphill from the meter connection making the pressure inadequate to run modern appliances. Two other letters protesting the magnitude of the proposed rate increase were received.

On June 27, 1989 a public meeting was held at the Southern Humboldt Unified School District Auditorium in Garberville near BWC's service area. The Branch's representative explained Commission rate setting procedures and BWC's representative explained the need for the rate increase. Sixteen persons in addition to the utility's general manager and two Branch engineers attended the public meeting. All protested the magnitude of the proposed rate increase. Representatives of the two large users complained of high rates and expressed objections to the proposed rate increases applicable to their meter sizes. Everyone appeared to be satisfied after BWC's general manager presented a breakdown of the cost increases the utility had recently experienced.

Branch engineers conducted a field investigation of BWC's facilities and service area on June 26, 27, and 28, 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, pressure, quality, or other problems.

BWC's has no current conservation program. The utility indicated that its water supply was more than adequate during the last two drought years and it therefore does not expect any shortfalls in the near future. No additional conservation measures are needed at this time.

The utility currently has three schedules: Schedule No. 1, Metered Service; Schedule No. 4, Private Fire Protection Service; and Schedule No. 5PR, Private Fire Hydrant Service. The Metered Service rate schedule consists of two quantity blocks of 0 to 3 Ccf (one Ccf is one-hundred cubic feet) and over 3 Ccf, and a monthly service charge determined by meter size.

The rates proposed by the Branch, included here as Appendix B, were designed by applying the system average increase to all rate categories. Service charge rates at recommended rates will recover approximately 25% of fixed costs. In examining the customer impact of redesigning service charges to recover 50% of fixed costs per Commission policy, the Branch observed that residential customers whose consumption was less than 1,000 cubic feet per month would receive rate increases of from 63% to 143% while a commercial customer with usage exceeding 150,000 cubic feet per month would receive

a rate reduction. The Branch therefore concurs with BWC's proposal to continue the existing 25% fixed cost ratio for monthly service charges.

BWC's filed tariffs do not contain the recent revisions to Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee, and Rule 19, Service to Separate Premises and Multiple Units. The Branch recommends that BWC be ordered to file these revisions to its tariffs.

No complaints have been received by the Consumer Affairs Branch in the last three and one half years.

According to the Humboldt County Department of Environmental Health, BWC's water supply meets all primary and secondary drinking water standards currently in effect.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$8,148, or 19.6%. This increase provides a 10.75% rate of return on 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 740 cubic feet of water per month would increase from \$12.51 to \$15.84 (26.6%) per month. A comparison of customer bills at 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 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.
5. BWC's filed tariffs do not contain the recent revisions to Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee, and Rule 19, Service to Separate Premises and Multiple Units. BWC should be ordered to file the most recent revisions to these tariffs when it files its revised rate schedules.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Benbow 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 Schedules 1, 4, and 5PR. It shall also file the recent revisions to Schedule UF and Tariff Rule 19. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules 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 November 3, 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

 BENDOW 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	\$42,671	\$54,581	\$41,038	\$52,711	\$49,070
Private Fire	475	864	554	864	670
Total Revenue	43,146	55,445	41,592	53,575	49,740
Operating Expenses					
Purchased Power	5,168	5,168	4,960	4,960	4,960
Other Volume Related	100	100	150	150	150
Materials	2,000	2,000	2,000	2,000	2,000
Contract Work	500	500	500	500	500
Transportation	2,838	2,838	1,940	1,940	1,940
Other Plant Maint.	1,200	1,200	1,200	1,200	1,200
Employee Labor	2,700	2,700	1,700	1,700	1,700
Management Salary	7,200	7,200	7,200	7,200	7,200
Office Services & Rent	1,320	1,320	1,320	1,320	1,320
Office Supplies	2,400	2,400	2,400	2,400	2,400
Professional Services	3,050	3,050	3,050	3,050	3,050
Insurance	3,600	3,600	3,600	3,600	3,600
General	1,600	1,600	1,600	1,600	1,600
Rate Case Expense	300	300	300	300	300
Subtotal	33,976	33,976	31,920	31,920	31,920
Depreciation	3,306	3,306	2,930	2,930	2,930
Property Taxes	2,700	2,700	1,460	1,460	1,460
Payroll Taxes	289	289	670	670	670
Income Taxes	500	500	1,060	3,800	2,920
Total Deductions	40,771	40,771	38,040	40,780	39,900
Net Revenue	2,375	14,674	3,552	12,795	9,840
Rate Base					
Average Plant	239,240	239,240	140,380	140,380	140,380
Average Dep. Reserve	45,400	45,400	45,610	45,610	45,610
Net Plant	193,840	193,840	94,770	94,770	94,770
Less Advances	0	0	0	0	0
Contributions	6,894	6,894	7,090	7,090	7,090
Plus Working Cash	5,232	5,232	3,760	3,760	3,760
Mat'l. & Supplies	100	100	100	100	100
Rate Base	192,278	192,278	91,540	91,540	91,540
Rate of Return	1.24%	7.63%	3.88%	13.98%	10.75%

APPENDIX B
Page 1

BENBOW WATER COMPANY

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on a monthly basis.

TERRITORY

Benbow and vicinity, located approximately three miles south of Garberville, Humboldt County. (T)

RATES

Quantity Rate:

All Water, per 100 cu. ft..... \$ 1.06 (C)

Service Charge:

	Per Meter Per Month		SDWBA Yearly Surcharge	(T) (T)
For 5/8 x 3/4-inch meter	\$ 8.00 (I)		\$ 60.00	
For 3/4-inch meter	9.00		90.00	
For 1-inch meter	12.00		150.00	
For 1-1/2-inch meter	16.00		300.00	
For 2-inch meter	21.00		480.00	
For 3-inch meter	40.00		900.00	
For 4-inch meter	54.00 (I)		1,500.00	

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)

The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. (T)

This surcharge must be identified on each bill. The surcharge is specifically for the repayment of the California SDWBA loan authorized by Decision 93798. (T)

All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)
(L)

APPENDIX B
Page 2

BENBOW WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Benbow and vicinity, located approximately three miles south of Garberville, Humboldt County.

RATE

Per Month

For each inch of diameter of service connection \$8.00 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost shall be paid by the applicant. Such payment shall not be subject to refund. (T)
5. The utility undertakes to supply such water at such pressure as may be available at any time through the normal operation of its system.
6. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)
(L)

APPENDIX B
Page 3

BENBOW WATER COMPANY

Schedule No. 5PR

PRIVATE FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to hydrants owned by individuals other than municipalities, organized fire districts, and other political subdivisions of the State.

TERRITORY

Benbow and vicinity, approximately three miles south of Garberville, Humboldt County.

RATE

Per Month

For each hydrant \$8.00 (I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from an individual. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type, and size. (T)
|
(T)
4. The utility undertakes to supply only such water at such pressures as may be available at any time through the normal operation of its system.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)
(L)

APPENDIX C

BENBOW WATER COMPANY

COMPARISON OF RATES

Service Charge:

	<u>Per Meter Per Month</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	\$ 6.60	\$ 8.00	\$ 1.40	21.21%
For 3/4-inch meter	7.25	9.00	1.75	24.14%
For 1-inch meter	9.90	12.00	2.10	21.21%
For 1-1/2-inch meter	13.20	16.00	2.80	21.21%
For 2-inch meter	17.80	21.00	3.20	17.98%
For 3-inch meter	33.00	40.00	7.00	21.21%
For 4-inch meter	45.00	54.00	9.00	20.00%

Quantity Charge:

All Water	
per 100 cu. ft.	\$ 1.06
First 300 cu. ft.	
per 100 cu. ft.	\$ 0.62
Over 300 cu. ft.	
per 100 cu. ft.	0.92

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

<u>Monthly Usage</u> <u>100 cu. ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 6.60	\$ 8.00	\$ 1.40	21.21%
3	8.46	11.18	2.72	32.15%
5	10.30	13.30	3.00	29.13%
7.4 (AVG)	12.51	15.84	3.33	26.62%
10	14.90	18.60	3.70	24.83%
20	24.10	29.20	5.10	21.16%
30	33.30	39.80	6.50	19.52%
50	51.70	61.00	9.30	17.99%

APPENDIX D
Page 1

BENBOW 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	3/22/89
Kwh Used - Total	45,375
Kwh Used - Summer	29,040
Kwh Used - Winter	16,335
\$/Kwh - Summer	0.10976
\$/Kwh - Winter	0.09024
Summer Charge	\$ 3,187
Winter Charge	1,474
Service Charge	300
Total Purchased Power	4,961

2. Purchased Water None

3. Insurance Expenses \$ 3,600

4. Ad Valorem Taxes	1,460
Composite Tax Rate	1.000%
Assessed Value	\$146,000

5. Water Testing (in contract work) 108

Service Connections

Metered

5/8 x 3/4-inch meter	21
3/4-inch meter	53
1-inch meter	8
1-1/2-inch meter	0
2-inch meter	4
3-inch meter	0
4-inch meter	<u>1</u>
Total	87

Flat Rate None

Metered Water Sales Used to Design Rates 36,300 Ccf

APPENDIX D
Page 2

BENBOW WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989ADOPTED TAX CALCULATIONS
Test Year 1989

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 49,740	\$ 49,740
2.	Expenses	31,920	31,920
3.	Taxes Other Than Income	2,130	2,130
4.	Depreciation	2,930	2,930
5.	Interest	0	0
6.	Taxable Income for CCFT	12,760	
7.	CCFT @ 9.3% \$600 min	1,187	1,187
8.	Taxable Income for FIT		11,573
9.	Federal Income Tax @ 15%		1,736
10.	Total Income Tax		2,923

(END OF APPENDIX D)