

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3489  
May 4, 1990

## RESOLUTION

(RES. W-3489) GARBERVILLE WATER COMPANY, INC. (GWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$20,922 OR 26.3% ADDITIONAL ANNUAL REVENUE

GWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on November 20, 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 \$27,532 or 34.6%. GWC estimates that 1990 gross revenues of \$79,640 at present rates would increase to \$107,172 at proposed rates to produce a rate of return of 12.54%. GWC presently serves approximately 353 metered and 6 flat rate customers in Garberville and vicinity, Humboldt County.

The present rates became effective December 2, 1980 pursuant to Resolution W-2756, which authorized a purchased power offset rate increase of \$3,383, or 6.8%. The last general rate increase became effective March 13, 1979, pursuant to Resolution W-2493 which authorized an increase of \$5,140, or 12%.

The Branch made an independent analysis of GWC's summary of earnings. Appendix A shows GWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1990. Appendix A also shows differences in revenue, expenses, and rate base.

The Branch's estimate of Private Fire Protection revenue at present rates is slightly lower than GWC's. The difference is due to the utility's inadvertent mathematical error in its workpapers.

The differences in estimates for operating expenses are in purchased power, other volume related expense, materials expense, professional services, regulatory commission expense, payroll taxes and income taxes.

The Branch's estimate for purchased power is lower than GWC's due to differing methodologies. GWC escalated 1988 recorded electric power consumption and applied the average of PG&E's winter and summer tariffs. The Branch's monthly consumption estimate is based on the average usage per customer of two years recorded data, escalated by expected customer growth. The Branch then applied PG&E's current tariffs for winter and summer consumption and demand charges to arrive at its estimate. The Branch's method of performing detailed analysis of water pumped and electric energy used under each applicable rate schedule and applying the latest power company rates is more accurate than simply escalating the previous year's figures.

The Branch's estimate for other volume related expenses is higher than GWC's. GWC did not estimate any amount for this account. The Branch's estimate is based on utility records of chlorine consumption for the past year. GWC inadvertently included this amount for chlorine in its estimate of materials expense.

The Branch's estimate for materials expense is lower than GWC's. As described above, GWC included the cost of chlorine in materials expense. Branch correctly excluded this expense from materials expense and included it in other volume related expense.

The Branch's estimate of professional services is lower than GWC's. GWC's estimate includes expenses incurred by an accountant in the preparation of this rate case. The Branch included these rate case related expenses in regulatory commission expense.

The Branch's estimate of regulatory commission expense is lower than GWC's. As described above, the Branch assigned rate case related expenses to this account but amortized them over a three year rate cycle. GWC inadvertently included in this account the one and one-half percent user fee surcharge which is considered separately.

The Branch's estimate of payroll taxes is higher than GWC's. The Branch used the latest payroll tax rates which were not available to GWC at the time it prepared its estimate for payroll taxes.

The Branch's income tax estimate reflects the current rates under the Federal Tax Reform Act of 1986 and the corresponding state rates for 1990. GWC provided no explanation of its estimate of income taxes.

The difference in rate base is due to differences in depreciation reserve, advances, contributions, and working cash.

The Branch's estimate of depreciation reserve is higher than GWC's and its estimates of advances and contributions are lower than GWC's. GWC inadvertently used 1989 estimates where 1990 figures were appropriate. The Branch used the proper 1990 figures.

The Branch used the new simplified method of calculating a working cash allowance adopted by the Commission on January 27, 1989 to estimate its working cash estimate. GWC did not include an estimate of working cash and offered no explanation.

GWC's draft advice letter requested rates which it estimated would produce a return on rate base of 12.54%. The Branch's recommended summary of earnings would produce a rate of return of 11.00% at the Branch's recommended rates. This 11.00% rate of return is the high point of the 10.50% to 11.00% standard rate of return range recommended by the Finance Branch of the Commission Advisory and Compliance Division for small 100% equity financed water utilities.

GWC 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 December 6, 1989. No letters protesting the increase were received by the Branch. The Consumer Affairs Branch of the Commission has also received no complaints during the last four years.

On January 10, 1990 a public meeting, attended by three members of the public was held in GWC's service territory. A Branch representative conducted the meeting and GWC's owner was there to answer questions. One customer inquired about the wording on the notice to customers which led him to believe that his rate would increase by the requested percentage increase every year. He was assured that was not the case. Another customer expressed concern about water quality, and presented a letter. After discussing this letter with the officials of the State Department of Health Services, the Branch wrote a letter assuring the customer that GWC's water met all applicable health requirements.

According to the California State Department of Health Services GWC's water meets all primary and secondary drinking water standards currently in effect. There are no outstanding Commission orders requiring system improvements.

Branch engineers conducted a field investigation of GWC's facilities and service area on January 10, 11, and 12, 1990. Visible portions of the water system were inspected, pressures checked, customers and company employees interviewed, and methods of operation checked. The investigation indicated that service is satisfactory and that GWC's system was in compliance with the requirements of the Commission's General Order 103 "Rules Governing Water Service Including Minimum Standards for Design and Construction."

GWC currently has no conservation program. The utility's owner indicated that its water supply was more than adequate to meet customer demand during the last two drought years and it, therefore, does not expect any shortages in the near future. The Branch does not recommend a conservation program at this time.

GWC currently has three schedules: Schedule No. 1, Metered Service; Schedule No. 4, Private Fire Protection Service; and Schedule No. 5, Public Fire Hydrant Service.

By Decision 86-05-064 the Commission adopted a policy calling for recovery of up to 50% of a water company's fixed expenses through service charges. The policy also calls for phasing out lifeline rates and encourages the reduction of multiple blocks to a single block.

The present metered rate schedule consists of a minimum charge, a block for the first 400 cubic feet per month under the minimum charge and a second quantity block for over 400 cubic feet. The minimum charges currently recover 46% of GWC's fixed expenses; the Branch proposes to revise the metered schedule to service charges which recover 36%. A rate design with higher service charges would recover a greater proportion, but would also result in customers with low to moderate usage receiving an increase far greater than the overall percentage increase. The Branch's proposed service charges are lower than the present minimum charges, resulting in a small rate reduction for customers with no usage. However, it is unlikely that any metered customer will have zero usage for an extended period, so all will realize an increase over the long term.

Currently, GWC has six customers who have no meter installed and pay a flat rate equivalent of a minimum charge for water. The Branch recommends GWC be allowed to file Schedule No. 2, Flat Rate Service, to permit it to continue serving these six customers at flat rates.

Section 2713 of the Public Utilities Code prohibits water utilities from charging public fire protection agencies any fees for fire hydrants unless there is a written agreement between the parties to pay for such service. The Garberville Fire District has indicated that it will continue to pay the current tariff, but is unwilling to pay a higher charge. Therefore, the Branch recommends no change to Schedule No. 5, Public Fire Protection.

GWC has not filed updated tariffs: Preliminary Statements, Rule Nos. 1, 2, 10, 15, 16, 17, 19, and Forms 2 through 10. The Branch recommends that GWC should be ordered to update its filed tariff rules and related forms.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$20,922, or 26.3%, which would increase estimated annual operating revenues from \$79,622 at present rates to \$100,544 at the rates recommended in Appendix B. This increase will provide an 11.0% estimated rate of return on rate base in test year 1990.

At the Branch's recommended rates shown in Appendix B, the bill for a typical metered residential customer using an average 1140 cubic feet of water per month would increase from \$12.90 to \$17.14 per month (32.9%). 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 by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. GWC should be ordered to file updated tariff rules and related forms as described above.
5. GWC should be authorized to file a rate schedule for flat rate customers.
6. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

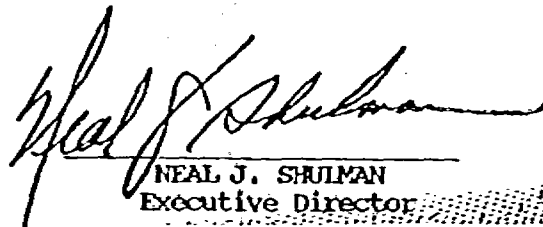
IT IS ORDERED THAT:

1. Authority is granted under the Public Utilities Code Section 454 for Garberville Water Company, Inc. 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 4. Along with this advice letter, Garberville Water Company, Inc. shall file updated tariffs: Preliminary Statements, Rule Nos. 1, 2, 10, 15, 16, 17, 19, and Forms 2 through 10. Its filing shall comply with General Order 96-A. The effective date of the new and revised 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 May 4, 1990. The following commissioners approved it:

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

  
NEAL J. SHULMAN  
Executive Director

## APPENDIX A

GARBERVILLE WATER COMPANY, INC.  
SUMMARY OF EARNINGS  
Test Year 1990

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Metered	\$77,298	\$104,056	\$77,298	\$104,056	\$97,832
Flat	374	590	374	590	720
Private Fire	168	222	150	222	192
Public Fire	<u>1,800</u>	<u>2,304</u>	<u>1,800</u>	<u>2,304</u>	<u>1,800</u>
Total Revenue	79,640	107,172	79,622	107,172	100,544
<u>Operating Expenses</u>					
Purchased Power	\$23,126	\$23,126	\$21,530	\$21,530	\$21,530
Other Volume Related	0	0	660	660	660
Materials Expense	3,500	3,500	2,840	2,840	2,840
Contract Work	2,310	2,310	2,310	2,310	2,310
Transportation	1,800	1,800	1,800	1,800	1,800
Employee Labor	11,000	11,000	11,000	11,000	11,000
Management Salary	10,407	10,407	10,407	10,407	10,407
Office Salary	7,560	7,560	7,560	7,560	7,560
Employee Pen. & Ben.	4,090	4,090	4,090	4,090	4,090
Office Services & Rent	1,440	1,440	1,440	1,440	1,440
Office Supplies	2,211	2,211	2,211	2,211	2,211
Professional Services	4,056	4,056	2,060	2,060	2,060
Insurance	4,180	4,180	4,180	4,180	4,180
General Expense	1,014	1,014	1,014	1,014	1,014
Uncollectibles	796	1,072	1,072	1,072	1,072
Reg. Com. Exp.	1,200	1,200	670	670	670
Subtotal	78,690	78,966	74,844	74,844	74,844
Depreciation Exp.	7,763	7,763	7,763	7,763	7,763
Property Tax	516	516	516	516	516
Payroll Tax	2,533	2,533	2,573	2,573	2,573
Income Tax	0	4,227	800	4,919	3,401
Total Deductions	89,502	94,005	86,496	90,615	89,097
<u>Net Revenue</u>	( 9,862)	13,167	( 6,874)	16,557	11,447
Average Plant	438,640	438,640	438,640	438,640	438,640
Average Dep. Reserve	188,050	188,050	201,070	201,070	201,070
Net Plant	250,590	250,590	237,570	237,570	237,570
<u>Less</u> Advances	40,800	40,800	39,265	39,265	39,265
Contributions	106,750	106,750	103,200	103,200	103,200
<u>Plus</u> Working Cash	0	0	6,960	6,960	6,960
Mat'l. & Supplies	2,000	2,000	2,000	2,000	2,000
<u>Rate Base</u>	105,040	105,040	104,065	104,065	104,065
<u>Rate of Return</u>	(loss)	12.54%	(loss)	15.91%	11.00%

APPENDIX B  
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GARBERVILLE WATER COMPANY, INC.

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Garberville and vicinity, Humboldt County.

RATES

Quantity Rate:	Per Meter Per Month
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All water, per 100 cu.ft. ....	\$ 1.10
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(C)

Service Charge:

For 5/8 x 3/4-inch meter .....	\$ 4.60
For 3/4-inch meter .....	5.05
For 1-inch meter .....	6.90
For 1-1/2-inch meter .....	9.20
For 2-inch meter .....	12.45
For 3-inch meter .....	23.00
For 4-inch meter .....	32.00

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.

(C)

All bills are subject to reimbursement fee set forth on Schedule No. UF.

(L)

(L)

APPENDIX B  
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GARBERVILLE WATER COMPANY, INC.

Schedule No. 2

FLAT RATE SERVICE

(N)

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Garberville and vicinity, Humboldt County.

RATE

Per Connection  
Per Month

For each service connection. .... \$ 10.00

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one-inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.
3. All bills are subject to reimbursement fee set forth on Schedule No. UF.

(N)



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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Garberville and vicinity, Humboldt County.

RATE

	<u>Per Month</u>	
For each 2-inch wharf-type hydrant. ....	\$ 8.00	(I)

SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.
2. 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 will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.
3. 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 paid by the applicant. Such payment shall not be subject to refund.
4. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.
5. All bills subject to reimbursement fee set forth on Schedule No. UF.

(D)  
(N)  
-----  
(H)  
  
(L)  
(L)

APPENDIX C

GARBERVILLE WATER COMPANY, INC.

COMPARISON OF RATES

A comparison of the present and Branch's recommended rates is shown below:

METERED SERVICE

Present rates are minimum charge type rates, which include 400 cubic feet of water per month (for 5/8 x 3/4-inch meters; larger amounts for larger meters). Recommended rates are service charge type rates.

	Per Meter Per Month			
	Present Rates	Recommended Rates	Increase Amount	Increase Percent
For 5/8 x 3/4-inch meter .....	\$ 5.20	\$ 4.60	\$ -0.60	-11.5%
For 3/4-inch meter .....	7.65	5.05	-2.60	-34.0
For 1-inch meter .....	12.50	6.90	-5.60	-44.8
For 1-1/2-inch meter .....	23.65	9.20	-14.45	-61.1
For 2-inch meter .....	36.15	12.45	-23.70	-65.6
For 3-inch meter .....	64.00	23.00	-41.00	-64.1
For 4-inch meter .....	100.00	32.00	-68.00	-68.0

Quantity Rates (for 5/8 x 3/4-inch meters):

First 400 cu. ft., or less .....	\$ 5.20
Over 400 cu. ft., per 100 cu. ft. ....	1.04

All use, per 100 cu. ft. .... \$ 1.10

Typical monthly bill for a typical user on a 5/8 x 3/4-inch meter.

Monthly Usage In Ccf	Present Rates	Recommended Rates	Increase	
			Amount	Percent
0	\$ 5.20	\$ 4.60	\$-0.60	-11.5%
3	5.20	7.90	2.70	51.9
5	6.24	10.10	3.86	61.9
10	11.44	15.60	4.16	36.4
11.4 (avg)	12.90	17.14	4.24	32.9
15	16.64	21.10	4.46	26.8
20	21.84	26.60	4.76	21.8
30	32.24	37.60	5.36	16.6

FLAT RATE SERVICE

There is presently no flat rate service schedule.

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GARBERVILLE WATER COMPANY, INC.

ADOPTED QUANTITIES

Test Year 1990

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	A-10
Effective Date of Schedule	1/1/90	1/1/90
Kwh Used - Total	28,432	183,464
Kwh Used - Summer	17,091	110,884
Kwh Used - Winter	11,341	72,580
\$/kwh - Summer	0.12170	0.09427
\$/kwh - Winter	0.10006	0.07310
Quantity Charge - Summer	\$ 2,080	\$ 10,453
Quantity Charge - Winter	1,135	5,306
Service Charge	465	600
Demand - KW		41
\$/KW-Demand per month		3.03
Demand Charge		1,491
Total Charge	\$ 3,680	\$ 17,850
Total Purchased Power	\$ 21,530	

2. Purchased water

None

3. Ad Valorem Taxes

\$ 517

Composite Tax Rate

1.000%

Assessed Value

\$ 49,247

Special Assessments

\$ 25

4. Water Testing Expenses (in Contract Work)

\$ 1,080

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GARBERVILLE WATER COMPANY, INC.

ADOPTED QUANTITIES  
Test Year 1990

Service Connections

Flat Rate ..... 6

Metered Rate

5/8 x 3/4-inch meter	.....	323
3/4-inch meter	.....	0
1-inch meter	.....	13
1-1/2-inch meter	.....	10
2-inch meter	.....	6
3-inch meter	.....	1
4-inch meter	.....	0
Total Metered	.....	353

Grand Total Number of Customers ..... 359

Metered Water Sales Used to Design Rates .... 70,200 Ccf

ADOPTED INCOME TAX CALCULATIONS  
Test Year 1990

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$100,544	\$100,544
2.	O & M Expenses	74,844	74,844
3.	Taxes Other Than Income	3,089	3,089
4.	Depreciation	7,763	7,763
5.	Interest	0	0
6.	Taxable Income for CCFT	14,848	
7.	CCFT @ 9.3% (\$800 Minimum)	1,381	1,381
8.	Taxable Income for FIT		13,467
9.	Federal Income Tax @ 15%		2,020
10.	Total Income Tax		3,401

(END OF APPENDIX D)