

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3501
June 20, 1990

R E S O L U T I O N

(RES. W-3501) NORTH GUALALA WATER COMPANY (NGWC)
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$99,801 OR (47.2%) ADDITIONAL ANNUAL REVENUE.

NGWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on December 22, 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 \$235,693 or 111.4%. NGWC estimates that 1990 gross revenue of \$211,571 at present rates would increase to \$447,264 at proposed rates to produce a rate of return on rate base of 11.0%. NGWC presently serves approximately 822 metered customers in an area located in and around the town of Gualala, in Mendocino County.

The present rates became effective on March 11, 1986 pursuant to Resolution W-3302, dated March 5, 1986 which authorized a general increase of \$35,740, or 28.1% additional annual revenue.

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

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

The Branch's estimate for purchased power is higher than NGWC's. NGWC and the Branch agree on the total amount of water produced, but Branch used this figure in its calculations in a different manner from NGWC to yield a different result. The Branch used recorded data and applied the latest PG&E rates in its calculations, while NGWC could not adequately explain its estimate. NGWC also used PG&E rates which were in effect when it filed its rate case, but are no longer in effect.

The Branch's estimate of other volume related expenses is lower than NGWC's. In mid-1989, NGWC connected its newly drilled well No. 4 to its water system. This well produces good quality water and requires minimal chemical treatment. The Branch's estimate for other volume related expenses reflect the reduction of chemical costs resulting from the use of well No. 4. NGWC estimated no reduction in chemical costs associated with well No. 4.

The Branch's estimate of employee labor is lower than NGWC's. The owner of NGWC also owns, and operates, a local construction company. The Branch reviewed time sheet type vouchers and allocated the proper labor expense for the water company. Branch escalated the allocated salaries to 1990 by applying the labor escalation factor. The escalation factors used by the Branch for this and other accounts were those recommended by the Advisory Branch of Commission Advisory and Compliance Division. NGWC used unsubstantiated estimated hours of labor to calculate its estimate.

The Branch's estimate of contract work is lower than NGWC's. The State Department of Health Services (DHS) previously required a larger number of tests for NGWC than would be expected for a utility of its size. The system was in violation of several DHS orders and consequently DHS required extensive testing of improperly treated water. Since the system has been upgraded with the drilling of the fourth well, DHS testing requirements have been reduced. The Branch conferred with DHS in estimating testing cost for test year 1990. NGWC's estimate did not give consideration to lower ongoing testing requirements resulting from the addition of well No. 4.

The Branch's estimate of pensions and benefits is lower than NGWC's. The Branch accepts NGWC's ratio of labor costs to pension and benefit costs but since the Branch's estimate of labor, as discussed earlier, is lower than NGWC's, the ratio applied to the Branch's lower labor estimate results in lower amounts for pensions and benefits.

The Branch's estimate of office supplies and expense is lower than NGWC's. The Branch based its estimate on recorded figures escalated for inflation and customer growth. NGWC could not adequately explain its estimate.

The Branch's estimate of professional services is lower than NGWC's. NGWC is involved in numerous lawsuits concerning easement rights-of-way. The Branch believes that through better management and a better public relationship with its customers, NGWC could have avoided these lawsuits, and as a result, the ratepayers should not be required to pay the entire amount of these expenses. The Branch studied 30 comparably sized water utilities and based its estimate on the average professional service expenses experienced by the highest 30% of these companies.

The Branch's estimate of insurance is lower than NGWC's. The Branch examined all of NGWC's insurance billings and its estimate is based on the actual amount NGWC is expected to pay during the test year. NGWC could not explain its estimate.

The Branch's estimate of property taxes is lower than NGWC's. The Branch's estimate is based on lower plant additions estimated for the test year. Also, the Branch did not include one-half of the property tax for the Ocean Ridge storage tank site since a non-utility personal residence is built and occupied on the site.

The Branch's estimate of payroll taxes is lower than NGWC's. The Branch applied the latest payroll tax rates to its payroll estimates. The latest payroll tax rates were not available to NGWC at the time it prepared its estimate.

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. The only differences are in revenue and expense estimates.

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

The Branch's estimate of plant in service is lower than NGWC's. The several reasons for the difference in plant estimates are: 1) Branch had access to later recorded information for its estimate than NGWC; 2) NGWC's workpapers were not consistent between its plant estimate and depreciation reserve estimate; 3) DHS and Branch do not agree with NGWC's engineering report on plant additions that are necessary; and 4) NGWC has no firm timetable for much of the work it proposes in 1990.

For estimated year 1989, and test year 1990, NGWC included in its estimate several plant addition items which are mentioned below, along with the Branch recommended treatment.

NGWC included in its estimates several plant additions for which it had no definite plans for installation or acquisition of real property. The Branch concurs that the following projects are necessary and recommends that NGWC be authorized to file advice letter(s) to begin recovering the costs after these plant items have been placed in service:

- a. Construction of a clearwell and the related pipeline connecting the clearwell to a storage tank. The estimated cost is \$80,400.
- b. Furnishing and installing storage tanks and related main replacements in the commercial area of Gualala (Town Center). The estimated cost is \$325,000.
- c. The real property related to a well site. The estimated cost is \$30,000.
- d. The treatment plant at Fish Rock Gulch. The estimated cost is \$88,000.

NGWC included \$74,400 for the North Fork infiltration gallery treatment plant. Branch's investigation reveals that this plant is designed to accommodate growth. Present customers should not be required to pay for this growth related project because it should be financed by developers as contributions or advances as required by NGWC's filed Rule 15, Main Extensions.

NGWC's estimate included \$130,000 for the the enlargement and upgrading of the Waterboy treatment plant. NGWC's engineering report concludes part of this plant is necessary to increase capacity for future growth while the remaining part is to upgrade the treatment plant to current DHS standards. Branch concurs that the part related to water quality is necessary but since no definite plans exist for its installation at present, Branch recommends that NGWC be authorized to file an advice letter to begin recovering the costs of this installation after it has been placed into service. The portion due to increased capacity is not required to serve the existing customer base and should not be allowed offset recovery. NGWC should arrange to have these costs covered by contributions or advances from developers per its Rule 15.

The remaining difference between NGWC's and Branch's estimate of plant in service relates to an inadvertent mathematical error relating to retirements recorded in 1987. Branch corrected this error.

The Branch's estimate of depreciation reserve and expense is lower than NGWC's. This is due to the differences in the plant estimates explained above.

The Branch's estimate of contributions is lower than NGWC's. NGWC inadvertently used its depreciated contributed plant amount to calculate its depreciation expense estimate attributable to contributions, while the Branch properly used the initial contribution amounts to calculate depreciation. This resulted in the Branch's estimate containing more depreciation and less net contributions than NGWC's.

The Branch used the new simplified method of calculating a working cash allowance adopted by the Commission on January 27, 1989. NGWC used the older, outdated method to calculate working cash.

NGWC's draft advice letter requested rates which it estimated would produce a return on rate base of 11.03% in 1990. 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 utilities.

NGWC 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 January 3, 1990. Twenty-one letters of protest were received. These were divided between people who thought that the increase was unreasonably high and those who thought that the owner of NGWC was profiting by using water company resources for the benefit of his construction company projects. After investigation, the Branch believes that these allegations are without substantial merit. Twelve complaints were received by the Consumer Affairs Branch in the last three fiscal years. CAB's records indicate they were resolved shortly after they were received.

On February 7, 1990 a public meeting, attended by 50 members of the public, was held in NGWC's service territory. A Branch representative conducted the meeting and NGWC's owner and an engineer from the DHS were there to answer questions. Several questions were asked and answered about DHS's standards and requirements for new treatment plants. A great deal of anger and frustration was expressed by the customers about an increase in rates they consider unreasonable, and their inability to deal with the increase and what they consider to be an uncooperative owner.

According to the DHS, NGWC's water meets all primary and secondary drinking water standards currently in effect. There are no outstanding Commission orders requiring system improvements, however NGWC is under six separate orders from DHS to make system improvements. One of the purposes of filing this rate case was for NGWC to obtain sufficient revenue and Commission approval to make these ordered improvements. The Branch and DHS worked closely together to insure only necessary improvements will be approved.

Branch engineers conducted a field investigation of NGWC's facilities and service area on February 7, 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 NGWC'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."

NGWC currently has no conservation program. The utility indicated that its water supply was more than adequate for the present number of customers, and it therefore does not expect any shortages in the near future. The Branch does not recommend a conservation program at this time.

NGWC currently has one rate schedule: Schedule No. 1, General Metered Service. The present schedule consists of a service charge determined by meter size, and two quantity rate blocks. Meters are read and bills are rendered monthly.

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 rates proposed by the Branch, included here as Appendix B, were designed by increasing the service charge rate to approach 50% of fixed costs but also by limiting this rate to ensure no customer's bill will increase by more than twice the system average increase. The single quantity block rate was designed to recover the remainder of the metered revenue requirement. The Branch brought the ratios between service charges closer to the ratios recommended in Standard Practice U-25, "Guide for Adjusting and Estimating Operating Revenues of Water Utilities."

The Branch recommends that the Commission authorize an increase in gross revenue of \$99,801, or 47.2% in 1990. This increase provides an 11.00% rate of return on rate base in test year 1990.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a metered customer with a 5/8 x 3/4-inch meter using the system average of 750 cubic feet of water per month would increase from \$20.89 to \$31.40 or 50.3% in 1990. A comparison of 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. NGWC should be authorized to file advice letter(s) to begin recovering its costs after these plant items have been placed in service:
 - a. Construction of a clearwell and the related pipeline connecting the clearwell to a storage tank. The estimated cost is \$80,400.
 - b. Furnishing and installing storage tanks and related main replacements in the commercial area of Gualala (Town Center). The estimated cost is \$325,000.

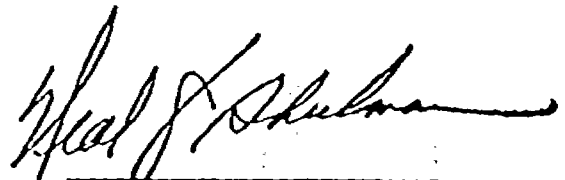
- c. The real property related to a well site. The estimated cost is \$30,000.
 - d. The treatment plant at Fish Rock Gulch. The estimated cost is \$88,000.
 - e. The portion of the Waterboy treatment plant additions related to meeting current DHS standards. The estimated cost is \$53,200.
5. The rate 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 North Gualala 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. 1. Its filing shall comply with General Order 96-A. The effective date of the new schedules shall be the date of filing.
2. North Gualala Water Company is authorized to file advice letter(s) to begin recovering its costs after these plant items have been placed in service:
 - a. Construction of a clearwell and the related pipeline connecting the clearwell to a storage tank. The estimated cost is \$80,400.
 - b. Furnishing and installing storage tanks and related main replacements in the commercial area of Gualala (Town Center). The estimated cost is \$325,000.
 - c. The real property related to a well site. The estimated cost is \$30,000.
 - d. The treatment plant at Fish Rock Gulch. The estimated cost is \$88,000.
 - e. The portion of the Waterboy Treatment Plant additions related to meeting current DHS standards. The estimated cost is \$53,200.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 20, 1990. The following commissioners approved it:

FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners


NEAL J. SHULMAN
Executive Director

President G. Mitchell Wilk,
being necessarily absent, did
not participate.

APPENDIX A

NORTH GUALALA WATER COMPANY
SUMMARY OF EARNINGS
Test Year 1990

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenue</u>					
Flat Rate	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Metered	211,571	447,264	211,571	447,264	311,372
Total Revenue	211,571	447,264	211,571	447,264	311,372
<u>Operating Expenses</u>					
Purchased Power	30,990	30,990	33,703	33,703	33,703
Other Volume Related Exp.	7,500	7,500	4,800	4,800	4,800
Employee Labor	46,863	46,863	34,688	34,688	34,688
Materials	8,500	8,500	8,500	8,500	8,500
Contract Work	6,500	6,500	5,509	5,509	5,509
Transportation	36,000	36,000	36,000	36,000	36,000
Office Salaries	23,232	23,232	23,232	23,232	23,232
Management Salaries	13,200	13,200	13,200	13,200	13,200
Pensions and Benefits	12,957	12,957	10,830	10,830	10,830
Office Services & Rentals	6,180	6,180	6,180	6,180	6,180
Office Supplies & Exps.	6,229	6,229	4,371	4,371	4,371
Professional Services	19,000	19,000	14,910	14,910	14,910
Insurance	30,000	30,000	10,260	10,260	10,260
General Expenses	1,500	1,500	1,500	1,500	1,500
Subtotal	248,651	248,651	207,683	207,683	207,683
Depreciation Exp.	32,523	32,523	18,618	18,618	18,618
Payroll Tax	7,111	7,111	6,446	6,446	6,446
Property Tax	10,934	10,934	9,185	9,185	9,185
Income Tax	600	53,397	800	70,564	17,203
Total Deductions	299,819	352,616	242,732	312,496	259,135
<u>Net Revenue</u>	(88,248)	94,648	(31,161)	134,768	52,237
Average Plant	1,446,158	1,446,158	1,090,968	1,090,968	1,090,968
Avg. Depr. Reserve	386,380	386,380	401,240	401,240	401,240
Net Plant	1,059,778	1,059,778	689,728	689,728	689,728
<u>Less: Contributions</u>	235,360	235,360	234,780	234,780	234,780
Advances	1,240	1,240	1,240	1,240	1,240
<u>Plus: Working Cash</u>	33,470	33,470	19,759	19,759	19,759
Mat'l & Suppl.	1,417	1,417	1,417	1,417	1,417
<u>Rate Base</u>	858,065	858,065	474,884	474,884	474,884
<u>Rate of Return</u>	(Loss)	11.03%	(Loss)	28.38%	11.00%

APPENDIX B

NORTH GUALALA WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Gualala and vicinity, located approximately 15 miles south of Point Arena, Mendocino County.

RATES

Quantity Rates:

All water used per 100 cu.ft..... \$ 2.52 (C)

Service Charge: Per Meter
Per Month

For 5/8 x 3/4-inch meter.	\$ 12.50	(I)
For 3/4-inch meter.	14.60	
For 1-inch meter.	19.40	
For 1-1/2-inch meter.	27.30	
For 2-inch meter.	35.20	
For 3-inch meter.	66.70	
For 4-inch meter.	90.00	(I)

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

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

APPENDIX C

NORTH GUALALA WATER COMPANY

COMPARISON OF RATES

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

METERED SERVICE

Service Charge:

	<u>Per Meter Per Month</u>			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percent</u>
For 5/8 x 3/4-inch meter	\$ 7.24	\$12.50	\$ 5.26	72.7%
For 3/4-inch meter	14.60	14.60	0.00	0.0%
For 1-inch meter	19.40	19.40	0.00	0.0%
For 1-1/2-inch meter	27.30	27.30	0.00	0.0%
For 2-inch meter	35.20	35.20	0.00	0.0%
For 3-inch meter	66.70	66.70	0.00	0.0%
For 4-inch meter	90.00	90.00	0.00	0.0%

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.....	\$ 1.40	\$ 2.52	\$ 1.12	78.6%
Over 300 cu.ft., per 100 cu.ft.....	\$ 2.10	2.52	0.42	20.0%

Monthly bill for a typical user on a 5/8 x 3/4-inch meter

<u>Monthly Usage in Ccf</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 7.24	\$ 12.50	\$ 5.26	72.7%
3	11.44	20.06	8.62	75.3%
5	15.64	25.10	9.46	60.5%
7.5 (Avg.)	20.89	31.40	10.51	50.3%
10	26.14	37.70	11.56	44.2%
15	36.64	50.30	13.66	37.3%
20	47.14	62.90	15.76	33.4%
50	110.14	138.50	28.36	25.7%

APPENDIX D
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NORIH GUALALA WATER COMPANY

ADOPTED QUANTITIES
Test Year 1990

Federal Tax Rate: 15.0%
State Tax Rate: 9.3%
Uncollectibles Rate: 0.0%

Expenses:

	<u>1990</u>	
1. Purchased Power:		
Pacific Gas & Electric Company		
Rate Schedule	A-1P	A-11
Effective Date of Schedule	1/1/90	1/1/90
Kwh Used - Grand Total	347,561	
Kwh Used - Total	142,500	205,061
Kwh Used - Summer	82,650	
Peak		18,838
Partial Peak		21,814
Off Peak		68,030
Kwh Used - Winter	59,850	
Partial Peak		36,597
Off Peak		59,782
\$/Kwh - Summer	0.12170	
Peak		0.10364
Partial Peak		0.07924
Off Peak		0.05325
\$/Kwh - Winter	0.10006	
Partial Peak		0.05961
Off Peak		0.05165
Summer Charge	\$ 10,058	\$ 7,303
Winter Charge	5,989	5,269
Customer Charge	1,170	756
Meter Charge		62
Demand Charge		
Summer (36KW x \$3.30 x 6 mo.)		713
Winter (20KW x \$3.30 x 6 mo.)		396
Peak Period Demand Charge		
(36KW x \$9.20 x 6 mo.)		1,987
Total Purchased Power	\$ 17,217	\$ 16,486
Grand Total Purchased Power	\$ 33,703	
2. Purchased Water:		None
3. Pump Tax-Replenishment Tax:		None

APPENDIX D
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NORTH GUALALA WATER COMPANY

ADOPTED QUANTITIES
Test Year 1990

	<u>1990</u>
4. Payroll and Employee Benefits:	
Employee Labor	\$ 34,688
Office Salaries	23,232
Management Salary	13,200
Employee Benefits	10,830
Total	\$ 81,950
Payroll Taxes	6,446
5. Ad Valorem Taxes:	
Tax Rate	1.0549%
Assessed Value	870,712
Tax Paid	9,185
6. Water Testing (in contract work):	4,909
7. <u>Number of Services</u>	
<u>Metered-Size</u>	
5/8 x 3/4-inch	802
3/4-inch	6
1-inch	7
1 1/2-inch	5
2-inch	2
3-inch	0
4-inch	0
Total	822
2. <u>Metered Water Sales - Ccf</u>	
Total used to design metered rates	73,860

APPENDIX D
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NORTH GUALALA WATER COMPANY

ADOPTED INCOME TAX CALCULATIONS
Test Year 1990

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	311,372	311,372
2.	Expenses	207,683	207,683
3.	Taxes Other Than Income	15,631	15,631
4.	Depreciation	18,618	18,618
5.	Interest	0	0
6.	Taxable Income for State Tax	69,440	
7.	State Tax @ 9.3% (\$800 Minimum)	6,458	6,458
8.	Taxable Income for FIT		62,982
9.	Federal Inc. Tax @ 15% of first \$50,000		7,500
10.	25% of next \$25,000		3,245
11.	Total Federal Income Tax		10,745
12.	Total Income Tax		17,203

(END OF APPENDIX D)