

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities BranchRESOLUTION NO. W-3510  
September 12, 1990

## R E S O L U T I O N

(RES. W-3510) THE SEA RANCH GAS AND WATER COMPANY  
(SRWC). ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING \$85,929 OR 37.7% ADDITIONAL ANNUAL REVENUE.

SRWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on May 10, 1990 requested authority under Section VI of General Order (GO) 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$175,685 or 76.3%. SRWC estimates that 1990 gross revenue of \$230,320 at present rates would increase to \$406,005 at proposed rates to produce a rate of return on rate base of 11.20%. SRWC presently serves approximately 1,082 metered and irrigation customers in an area known as the Sea Ranch, Sonoma County.

The present rates became effective on March 22, 1980 pursuant to Resolution L-213, which authorized a "Fire Protection Revenue Loss Surcharge" of \$3.17 per meter per month due to the loss of fire hydrant revenues resulting from the enactment of Section 2713 of the Public Utilities Code. The last general rate increase became effective December 28, 1979 pursuant to Resolution W-2482 which authorized an increase of \$43,968, or 85%.

The Branch made an independent analysis of SRWC's summary of earnings. Appendix A shows SRWC'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 metered revenue at present rates is slightly lower than SRWC's and at proposed rates is slightly higher. The differences are the result of different estimates of both number of customers and consumption per customer. Number of customer estimates differ due to the Branch's customer estimate being the test year average, while SRWC inadvertently used an end of year's customer figure. SRWC also reduced its quantity sales estimate by 10% to reflect its view that a rate increase would lead to reduced consumption. The Branch's estimate is based on several years' per customer consumption multiplied by its estimated number of customers. No allowance for reduced water sales was made due to the relatively low cost of water, even at the proposed rates.

The differences in estimates for operating expenses are in purchased power, materials, contract work, other plant maintenance, employee labor, office salaries, management salaries, office supplies, professional services,

insurance, general expense, depreciation expense, property taxes, and income taxes.

The Branch's estimate for purchased power is higher than SRWC's due to differences in customer consumption estimates, as explained previously, and to Branch's use of the latest power company rates, which were not available to SRWC when it prepared its estimate.

The Branch's estimate of materials expense is lower than SRWC's while its estimate of contract work and other plant maintenance is higher. The Branch examined SRWC's books of accounts and moved \$7,170 to contract work and \$2,820 to other plant maintenance to conform to the Uniform System of Accounts. SRWC inadvertently included all of these costs under materials expense. In this account, SRWC also inadvertently included some costs it charges the local sewer district to maintain the sewer system.

The Branch has accepted SRWC's total payroll estimate as reasonable for the test year. However, after examining the duties of the various employees, the Branch reallocated the salaries of two employees to management salaries from employee labor and office salaries to conform with the requirements of the Uniform System of Accounts.

The Branch's estimate of office supplies is higher than SRWC while its estimate of general expense is lower by an identical amount. The Branch examined SRWC's books of account and determined that SRWC inadvertently charged certain expenses to general expense that should have been charged to office supplies to conform to the Uniform System of Accounts. The Branch properly included such expenses in its estimate of office supplies.

The Branch's estimate of professional services is lower than SRWC's. The Branch's estimate does not include \$65,000 in legal expenses associated with the utility's continuing legal struggle with the State Water Resources Control Board (SWRCB) over the allocation of water from the South Fork of the Gualala River. SRWC's estimate improperly includes this amount. Oceanic Development Corporation (Oceanic), the parent company of SRWC, which is also a developer in the area, has paid these expenses in the past. These legal expenses are also included in the parent company's budget. Oceanic has also made a commitment to fund, at its own expense, any capital construction program associated with the development of supplemental supplies or additional storage in response to the SWRCB's orders.

The Branch's insurance estimate is higher than SRWC's. The Branch's estimate is based on more recent information which was not available when SRWC prepared its estimate.

The Branch's estimate of depreciation expense is lower than SRWC's. The utility's estimate of depreciation expense improperly included depreciation on contributed plant, which is not considered a proper expense for rate making.

The Branch's estimate of property taxes is based on the utility's most recent property tax bills. SRWC inadvertently used tax bills from a previous period.

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. SRWC provided no explanation of its estimate of income taxes.

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

The Branch's estimate of depreciation reserve is higher than SRWC's and its estimate of reserve related to contributions is lower. Differences in the plant categories of depreciation reserve and contributions can be attributed to the utility's inadvertent failure to depreciate contributions properly for many years. The Branch's estimate corrected this oversight.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in SRWC's annual reports, the Branch recommends that SRWC be directed to record on its books of account depreciation reserve and contributions balances upon which the average amounts adopted in this resolution are based, and to reflect those balances in its 1990 annual report to the Commission. Those balances are \$1,138,703 for depreciation reserve and \$1,588,829 for contributions.

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. SRWC did not include a working cash estimate in its summary of earnings.

SRWC's draft advice letter requested rates which it estimated would produce a return on rate base of 11.20%. 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.

SRWC 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 18, 1990. Five letters protesting the increase were received by the Branch. Three of the letters oppose the magnitude of the increase for residential customers; one of the letters opposes the magnitude of the increase for irrigation customers; and one complains of pressure problems. The complaints relating to irrigation rates and pressure problems are discussed in subsequent paragraphs. Six complaints have been received by the Consumer Affairs Branch (CAB) in the last three years. CAB's records indicate that all were satisfactorily resolved.

On July 9, 1990 a public meeting, attended by 65 members of the public, was held near SRWC's service area. A Branch representative conducted the meeting and SRWC's representatives were there to answer questions. A question was raised about pressure, and in response, only one customer (the one who wrote the letter referred to above) had an alleged pressure problem. Apparently, this customer has pressure which meets G.O. 103 guidelines at the meter, but since the house is built far above the meter, there is low pressure in the upstairs rooms in the house.

According to the California Department of Health Services SRWC'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 SRWC's facilities and service area from June 12 through 14, 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 SRWC'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."

SRWC's conservation program consists of several measures designed to promote water conservation and reduce water waste. The utility has reduced its unaccounted-for water through a regular leak detection program and has asked the local fire district to restrict hydrant tests and fire drills to the rainy season. Utility personnel watch for high individual water consumption and contact customers when leaks are suspected. In addition to distributing bill inserts, the utility has asked for voluntary reductions in irrigation water usage. However, even with these measures summertime consumption is not likely to fall below the maximum diversion allowed by the permit from the State Water Resources Control Board. SRWC's engineering consultant is preparing an environmental impact report which should address both meeting the water needs of SRWC and maintaining the riparian values of the South Fork of the Gualala River. While the utility and its parent corporation have yet to decide on a supplemental water supply plan, the Branch recommends that water conservation and waste reduction be a part of any resource management plan developed by the utility to meet the Sea Ranch community's water needs.

SRWC currently has four schedules: Schedule No. 1, General Metered Service, Schedule No. 2R, Residential Flat Rate Service, Schedule No. 5, Public Fire Hydrant Service, and Schedule No. 9, Irrigation Service.

The present metered rate schedule consists of a service charge, a lifeline block for the first 3,000 gallons and a second quantity block for usage over 3,000 gallons.

Commission rate design policy for water utilities calls for the conversion of minimum charge rates to service charge rates. In addition, Decision 86-05-064, effective May 28, 1986, established a new rate design policy calling for rates which recover up to 50% of fixed expenses through the service charge, phasing out lifeline rates, and reducing the number of quantity blocks.

The metered rates proposed by the Branch, included here as Appendix B, were designed to provide approximately 50% of the utility's fixed costs through service charges with the remaining revenue requirement made up by quantity charges. In conformance to current Commission policy, the two metered quantity blocks have been reduced to one.

SRWC has no flat rate customers. The Branch concurs with SRWC's proposal that there is no need to keep Schedule No. 2R, Residential Flat Rate Service in SRWC's tariffs. Therefore, the Branch recommends that this schedule be cancelled.

SRWC's current Schedule No. 9, Irrigation Service, applies only to a golf course, which consumes approximately thirty percent of the water while contributing less than one percent of the revenue. Therefore, the Branch concurs with SRWC's proposal to apply a greater increase to the irrigation schedule so that this customer will not be so heavily subsidized by other ratepayers.

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. No written agreement between SRWC and the local fire district was ever filed with the Commission and SRWC collects no revenues from this rate schedule. Therefore, the Branch recommends Schedule No. 5, Public Fire Hydrant Service, be cancelled.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$85,929, or 37.7%, which would increase estimated annual operating revenues from \$227,691 at present rates to \$313,620 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 would increase from \$16.67 to \$23.00 per month (38.0%). 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. Schedule No. 2R, Residential Flat Rate Service, and Schedule No. 5, Public Fire Hydrant Service, should be canceled.
5. SRWC should be required to record on its books of account the depreciation reserve and contributions balances upon which the average amounts adopted in this resolution are based, and to reflect those balances in its 1990 annual report to the Commission. Those balances are \$1,138,703 for depreciation reserve and \$1,588,829 for contributions.
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 The Sea Ranch Gas and 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, 2R, 5, and 9. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. The Sea Ranch Gas and Water Company shall record on its books of account the depreciation reserve and contributions balances upon which the average amounts adopted in this resolution are based, and shall reflect those balances in its 1990 annual report to the Commission.

3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on September 12, 1990. The following commissioners approved it:

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
PATRICIA M. ECKERT  
Commissioners

Commissioner John B. Ohanian,  
being necessarily absent, did  
not participate.



NEAL J. SHULMAN  
Executive Director

## APPENDIX A

THE SEA RANCH GAS AND WATER COMPANY  
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	\$228,814	\$393,205	\$226,185	\$400,944	\$300,820
Irrigation	1,506	12,800	1,506	12,800	12,800
Total Revenue	230,320	406,005	227,691	413,744	313,620
<u>Operating Expenses</u>					
Purchased Power	20,334	20,334	23,250	23,250	23,250
Materials	28,436	28,436	3,650	3,650	3,650
Contract Work	0	0	7,170	7,170	7,170
Transportation	5,498	5,498	5,498	5,498	5,498
Other Plant Maint.	0	0	2,820	2,820	2,820
Employee Labor	79,292	79,292	37,820	37,820	37,820
Office Salaries	45,248	45,248	25,520	25,520	25,520
Management Salaries	0	0	61,200	61,200	61,200
Employee Benefits	29,998	29,998	29,998	29,998	29,998
Office Svcs. & Rent	22,356	22,356	22,356	22,356	22,356
Office Supplies	10,299	10,299	16,900	16,900	16,900
Professional Services	66,300	66,300	1,300	1,300	1,300
Insurance	663	663	5,100	5,100	5,100
General Expenses	6,602	6,602	0	0	0
Subtotal	315,026	315,026	242,582	242,582	242,582
Depreciation Exp.	23,545	23,545	14,170	14,170	14,170
Property Tax	3,814	3,814	3,885	3,885	3,885
Payroll Tax	10,283	10,283	10,283	10,283	10,283
Income Tax	(48,939)	21,335	800	47,054	9,780
Total Deductions	303,729	374,003	271,720	317,974	280,700
<u>Net Revenue</u>	(73,409)	32,002	(44,029)	95,770	32,920
Average Plant	3,001,964	3,001,964	3,001,964	3,001,964	3,001,964
Avg. Depr. Reserve	264,700	264,700	1,100,970	1,100,970	1,100,970
Net Plant	2,737,264	2,737,264	1,900,994	1,900,994	1,900,994
Less: Advances	0	0	0	0	0
Contributions	2,451,464	2,451,464	1,619,470	1,619,470	1,619,470
Plus: Working Cash	0	0	17,740	17,740	17,740
Mat'l & Suppl.	0	0	0	0	0
<u>Rate Base</u>	285,800	285,800	299,264	299,264	299,264
<u>Rate of Return</u>	(loss)	11.20%	(loss)	32.00%	11.00%

APPENDIX B  
Page 1

THE SEA RANCH GAS AND WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as The Sea Ranch, and vicinity, located approximately 7 miles southeast of Gualala, Sonoma County.

RATES

Quantity Rate:

All water, per 100 gallons.....	\$ 0.30	(C)
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Service Charge:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter.....	\$ 11.00	(C)
For 3/4-inch meter.....	12.10	
For 1-inch meter.....	16.50	
For 1-1/2-inch meter.....	22.00	
For 2-inch meter.....	29.70	(C)

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 Rates. (T)

(T)

SPECIAL CONDITIONS

1. Any customer prior to resuming service within twelve months after such service was discontinued will be required to pay all service charges which would have been billed if service had not been discontinued. (D)
  2. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (T)
- (T)



APPENDIX B  
Page 2

THE SEA RANCH GAS AND WATER COMPANY

Schedule No. 9

IRRIGATION SERVICE

APPLICABILITY

Applicable to all irrigation service.

TERRITORY

The area known as The Sea Ranch, and vicinity, located approximately 7 miles southeast of Gualala, Sonoma County.

(T)  
(T)

RATES

Quantity Rate:	<u>Per Meter</u> <u>Per Month</u>	
For each acre foot . . . . .	\$200.00	(I)
Minimum Charge. . . . .	\$150.00	(I)

The minimum charge will entitle the customer to the quantity of water which that minimum charge will purchase at Quantity Rate.

SPECIAL CONDITIONS

1. Irrigation service is interruptible at the discretion of the utility.
2. The customer shall bear all costs for the irrigation service and meter installation, including backflow prevention devices if required. The service and equipment shall become the property of the utility upon commencement of deliveries.
3. Any customer prior to resuming service within twelve months after such service was discontinued will be required to pay all minimum charges which would have been billed if service had not been discontinued.
4. The established billing cycle is every month. (T)
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (T)

## APPENDIX C

## THE SEA RANCH GAS AND WATER COMPANY

## COMPARISON OF RATES

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

METERED SERVICE

<u>Quantity Charge:</u>	<u>Present Rate</u>	<u>Per Meter Per Month</u>		
		<u>Recommended Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
First 3,000 gal., per 100 gal.	\$ 0.11	\$ 0.30	\$ 0.19	172.7%
Over 3,000 gal., per 100 gal.	0.17	0.30	0.13	76.5%
All use, per 100 gal.	—	0.30	—	—

Service Charge:

	<u>Present</u>	<u>Recommended</u>	<u>Increase</u>	<u>Percentage</u>
For 5/8 x 3/4-inch meter	\$ 8.50	\$11.00	\$ 2.50	29.4%
For 3/4-inch meter	9.50	12.10	2.60	27.4%
For 1-inch meter	11.50	16.50	5.00	43.5%
For 1-1/2-inch meter	13.50	22.00	8.50	63.0%
For 2-inch meter	—	29.70	—	—

A comparison of monthly bills for residential customers with 5/8 x 3/4-inch meters at present and the Branch's recommended rates:

<u>Monthly Usage,</u>	<u>Present</u>	<u>Recommended</u>	<u>Amount</u>	<u>Percent</u>
<u>Gallons</u>	<u>Bills</u> <sup>1</sup>	<u>Bills</u>	<u>Increase</u>	<u>Increase</u>
0	\$11.67	\$11.00	\$-0.67	-5.7%
3,000	14.97	\$20.00	\$5.03	33.6%
4,000 (avg.)	16.67	\$23.00	\$6.33	38.0%
15,000	35.37	\$56.00	\$20.63	58.3%
50,000	\$94.87	\$161.00	\$66.13	69.7%

<sup>1</sup>Present Bills include a \$3.17 monthly Fire Protection Revenue Loss Surcharge

IRRIGATION SERVICE:

<u>Quantity Charge:</u>	<u>Present Rate</u>	<u>Per Meter Per Month</u>		
		<u>Recommended Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
For each Acre-foot	\$ 18.50	\$200.00	\$181.50	981.1%
Minimum Charge	75.00	150.00	75.00	100.0%

Appendix D  
Page 1

THE SEA RANCH GAS AND WATER COMPANY

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.

	A-1	A-10
Rate Schedule	1/1/90	1/1/90
Effective Date		
Kwh Used - Total	213,970	
Kwh Used - Summer	18,704	92,560
Kwh Used - Winter	17,266	85,440
\$/Kwh - Summer	0.12170	0.09427
\$/Kwh - Winter	0.10006	0.07310
Summer Charge	\$ 2,276	\$ 8,726
Winter Charge	\$ 1,728	\$ 6,246
Monthly Service Charge	\$ 8.75	\$ 63.00
Number of Pump Stations	6	1
Service Charge	\$ 630	\$ 756
Total Billing Demand, Kw		876
Demand Charges, per Kw		\$ 3.30
Demand Charges		\$ 2,891
Subtotal	\$ 4,634	\$18,619
Total		\$ 23,253
Call - Purchased Power		\$ 23,250

2. Purchased Water

None

3. Ad Valorem Taxes

\$ 3,885

Composite Tax Rate

1.0101%

Assessed Value

\$314,770

Special Assessments

\$ 720

Exemptions

\$ 14

4. Water Testing Expenses  
(In Contract Work)

\$ 1,900

Appendix D  
Page 2

## THE SEA RANCH GAS AND WATER COMPANY

ADOPTED QUANTITIES

Test Year 1990

Service Connections

Metered Rate		
5/8 x 3/4-inch meter	1061	
3/4-inch meter	1	
1-inch meter	10	
1-1/2-inch meter	7	
2-inch meter	2	
Total	1081	
Metered water sales used to design rates	52,525,690 gallons	

ADOPTED INCOME TAX CALCULATIONS  
Test Year 1990

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$313,620	\$313,620
2.	Expenses	242,582	242,582
3.	Taxes Other Than Income	14,168	14,168
4.	Depreciation	14,170	14,170
5.	Interest	0	0
6.	Taxable Income for State Tax	42,700	
7.	State Tax @ 9.3% (\$800 Min.)	3,971	3,971
8.	Taxable Income for FIT		38,729
9.	Federal Income Tax @ 15%		5,809
10.	Total Income Tax		\$9,780