

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3535
December 19, 1990

R E S O L U T I O N

(RES. W-3535) COAST SPRINGS WATER COMPANY, INC.
(CSWC). ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$21,475
(38.3%) IN 1991.

CSWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on July 11, 1990, requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for service by \$20,090 or 36.1% in 1990 and an additional \$1,920 or 2.54% in 1991. CSWC's request shows 1990 gross revenue of \$55,620 at present rates increasing to \$75,710 at proposed rates in 1990, and to \$77,630 in 1991 to produce a rate of return of rate base of 10.75%. CSWC presently serves approximately 226 metered customers in Dillon Beach, Marin County.

The present rates became effective on May 12, 1986 pursuant to Resolution No. W-3311 dated May 7, 1986, which authorized a general rate increase of \$10,020, or 22.3%. A surcharge to repay a Safe Drinking Water Bond Act (SDWBA) loan was authorized in Decision (D.) 85-03-061 in an amount of \$206,000. Supplemental loans were authorized by D.86-05-013 and D.87-10-044 bringing the loan total to \$354,500.

The Branch made an independent analysis of CSWC's summary of earnings. Appendices A-1 and A-2 show CSWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test years 1990 and 1991. Appendices A-1 and A-2 also show differences in revenue, expenses, and rate base.

The Branch's estimate of revenue is slightly lower than CSWC's. The differences are the result of different estimates of consumption per customer. CSWC also made an inadvertent mathematical error. The Branch's estimate is based on several years' per customer consumption multiplied by its estimated number of customers.

The differences in estimates for operating expenses are in materials, water testing, office supplies, insurance, general expense, depreciation expense, property taxes, and income taxes.

The Branch's estimate of materials expense is lower than CSWC's. This is due to an inadvertent mathematical error by CSWC which the Branch corrected.

The Branch's estimate of water testing expense is higher than CSWC's. The Branch's estimate is based on receipts for the latest recorded periods and also the latest testing requirements of the California State Department of

Health Services (DHS). CSWC did not adequately explain its estimates. CSWC requests a balancing account for water testing expenses and the Branch concurs.

The Branch's estimate of office supplies is higher than CSWC's. The Branch's estimate is based on the average of the last three years recorded figures escalated for inflation. The escalation factors used by the Branch for this and other accounts were those recommended by the Advisory Branch of the Commission Advisory and Compliance Division.

The Branch's insurance estimate is higher than CSWC's. The Branch's estimate is based on its examination of CSWC's insurance policies and receipts for payment over the latest recorded period. CSWC did not explain its estimate.

The Branch's estimate of general expense is lower than CSWC's. The Branch's estimate is based on the average of the last three years recorded figures escalated for inflation. CSWC used a simple two-year average.

The Branch's estimate of depreciation expense is higher than CSWC's. As explained below, the Branch's estimate of net plant additions and depreciation reserve are higher than CSWC's.

The Branch's estimate of property taxes is higher than CSWC's. The Branch used its estimate of higher plant additions as explained below and also used the latest assessment rate which was not available to CSWC when it made 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. CSWC provided no explanation of its estimate of income taxes.

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

The Branch's estimate of plant in service and contributions is higher than CSWC's. CSWC inadvertently did not include plant additions and contributions from 1989 recorded figures. The Branch's estimate corrected this oversight.

The Branch's estimate of depreciation reserve is higher than CSWC's. This is the result of the Branch's higher estimate of plant in service, as explained above.

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. The Branch also eliminated \$5,000 in operational cash requirement after establishing that CSWC has no required minimum bank balance. CSWC used an older, outdated method of calculating working cash and also included the minimum bank balance.

CSWC's draft advice letter requested rates which it estimated would produce a return on rate base of 10.76%. The Branch's recommended summary of earnings would produce rates of return of 10.55% for 1990 and 10.44% for 1991 at the Branch's recommended rates. The rates of return, although one is lower than the 10.50% to 11.00% rate of return range recommended by the Finance Branch of the Commission Advisory and Compliance Division for small water utilities with 100% equity financing, result in CSWC being granted the total revenue percentage increase requested.

The authorized rate of return in the last rate case is generally used to determine whether a utility's earnings are excessive when the Commission is considering granting rate relief for offsetable items such as purchased power. The Branch therefore recommends that the Commission find a rate of return on rate base not exceeding 11.00% to be reasonable for the purpose of future earnings tests for CSWC.

CSWC 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 July 18, 1990. Four letters protesting the increase were received by the Branch. All of the letters oppose the magnitude of the increase compared to changes in the cost of living over the same period of time. No complaints have been received by the Consumer Affairs Branch in the last four years.

On August 20, 1990 a public meeting, attended by 15 members of the public, was held near CSWC's service area. A Branch representative conducted the meeting and CSWC's representatives were there to answer questions. Questions were raised about the magnitude of the increase compared to the change in the cost of living over the same period of time. Staff analysis reveals that a major part of the increase is due to substantiated increases in water testing and insurance expenses far greater than the rate of inflation.

According to the California Department of Health Services CSWC'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 CSWC's facilities and service area on August 21, 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 CSWC'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."

CSWC currently has a minimal conservation program which consists of a public awareness campaign and regular patrols in which the utility's staff monitors obvious water waste and offers assistance to customers in meeting their needs without waste. CSWC has an adequate water supply and reports no problems during the current dry spell, or the 1976 drought. The average user in CSWC's territory uses only three hundred cubic feet of water per month. This is considered quite low in comparison with other utilities. Therefore, the Branch does not recommend that additional conservation measures be ordered at this time.

CSWC currently has two schedules: Schedule No. 1A, Annual General Metered Service, and Schedule No. 5, Public Fire Hydrant Service.

The present metered rate schedule consists of an annual service charge, a lifeline block for the first 300 cubic feet monthly, a second quantity block for usage over 300 cubic feet monthly, and a surcharge for the repayment of a California Safe Drinking Water Bond Act loan, all billed bimonthly.

In D.86-05-064, effective May 28, 1986 the Commission 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 reduction of the number of quantity blocks.

The metered rates proposed by the Branch, included here as Appendix B, were designed to provide higher than 50% of the utility's fixed costs through service charges with the remaining revenue requirement made up by quantity charges. This was done to increase revenue stability due to low water usage in this partly resort area. In conformance to current Commission policy, the two metered quantity blocks have been reduced to one.

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

The Branch recommends that the Commission authorize an increase in gross revenue of \$21,475, or 38.3%. This would increase estimated annual operating revenues from \$56,100 at present rates to \$77,575 in 1991 at the rates recommended in Appendix B. This increase will provide a 10.44% estimated rate of return on rate base in test year 1991, and grants CSWC the total revenue percentage increase requested.

At the Branch's recommended rates shown in Appendix B, the bill for a typical metered residential customer would increase from \$19.15 to \$28 per month (46.2%) in 1991. A comparison of customer bills at present and recommended rates is shown in Appendix C.

FINDINGS

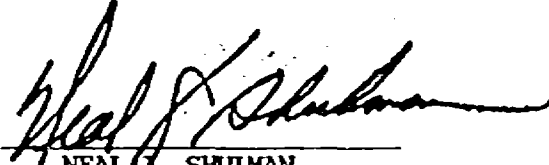
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. Schedule No. 5, Public Fire Hydrant Service, should be canceled.
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 Public Utilities Code Section 454 for Coast Springs 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 5. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. Pursuant to Public Utilities Code Section 792.5, Coast Springs Water Company, Inc., is directed to establish to maintain a balancing account for water testing expenses.
3. For the purpose of earnings tests in any future offset rate increase request for Coast Springs Water Company, Inc., a rate of return on rate base not exceeding 11.00% shall be considered reasonable.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1990. The following commissioners approved it:

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


NEAL J. SHULMAN
Executive Director

APPENDIX A-1

COAST SPRINGS WATER COMPANY, INC.
SUMMARY OF EARNINGS
Test Year 1990

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :		: Requested :		
	: Rates :	: Rates :	: Rates :	: Rates :	
<u>Operating Revenue</u>					
Metered	\$ 55,620	\$ 75,710	\$ 55,590	\$ 75,680	\$ 75,669
<u>Operating Expenses</u>					
Purchased Power	2,660	2,660	2,660	2,660	2,660
Other Volume Exp.	619	610	610	610	610
Employee Labor	3,500	3,500	3,500	3,500	3,500
Materials	2,320	2,320	2,030	2,030	2,030
Contract Work	800	800	800	800	800
Water Testing	2,000	2,000	2,700	2,700	2,700
Other Plant Maint.	440	440	440	440	440
Office Salary	4,670	4,670	4,670	4,670	4,670
Mgmt. Salary	16,200	16,200	16,200	16,200	16,200
Office Supplies	3,360	3,360	3,510	3,510	3,510
Insurance	6,700	6,700	6,750	6,750	6,750
Acctg., Legal	1,750	1,750	1,750	1,750	1,750
General Expense	2,670	2,670	2,430	2,430	2,430
Vehicle Expense	1,400	1,400	1,400	1,400	1,400
Rate Case Expense	1,000	1,000	1,000	1,000	1,000
Office Rental	3,740	3,740	3,740	3,740	3,740
Subtotal	53,820	53,820	54,190	54,190	54,190
Depreciation Exp.	4,470	4,470	4,660	4,660	4,660
Property Taxes	780	780	865	865	865
Payroll Taxes	1,930	1,930	1,930	1,930	1,930
Income Taxes	800	2,890	800	3,215	3,212
Total Deductions	61,800	63,890	62,445	64,860	64,857
<u>Net Revenue</u>	(6,180)	11,820	(6,855)	10,820	10,812
Average Plant	195,790	195,790	205,200	205,200	205,200
Avg. Depr. Reserve	94,890	94,890	95,140	95,140	95,140
Net Plant	100,900	100,900	110,060	110,060	110,060
Less: Advances	0	0	0	0	0
Contributions	7,420	7,420	19,220	19,220	19,220
Plus: Working Cash	16,070	16,070	11,320	11,320	11,320
Mat'l & Suppl.	350	350	350	350	350
<u>Rate Base</u>	109,900	109,900	102,510	102,510	102,510
<u>Rate of Return</u>	(loss)	10.76%	(loss)	10.56%	10.55%

APPENDIX A-2

COAST SPRINGS WATER COMPANY, INC.
SUMMARY OF EARNINGS
Test Year 1991

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
<u>Operating Revenue</u>					
Metered	\$ 56,140	\$ 77,630	\$ 56,100	\$ 77,620	\$ 77,575
<u>Operating Expenses</u>					
Purchased Power	2,680	2,680	2,680	2,680	2,680
Other Volume Exp.	610	610	610	610	610
Employee Labor	3,630	3,630	3,630	3,630	3,630
O&M Materials	2,320	2,320	2,070	2,070	2,070
Contract Work	830	830	830	830	830
Testing	2,000	2,000	2,700	2,700	2,700
Other Plant Maint.	440	440	440	440	440
Office Salary	4,830	4,830	4,830	4,830	4,830
Mgmt. Salary	16,780	16,780	16,865	16,865	16,865
Office Supplies	3,360	3,360	3,590	3,590	3,590
Insurance	6,800	6,800	6,935	6,935	6,935
Acctg., Legal	1,800	1,800	1,800	1,800	1,800
General Expenses	2,670	2,670	2,480	2,480	2,480
Vehicles	1,450	1,450	1,450	1,450	1,450
Regulatory Expense	1,000	1,000	1,000	1,000	1,000
Office Rental	<u>3,890</u>	<u>3,890</u>	<u>3,740</u>	<u>3,740</u>	<u>3,740</u>
Subtotal	55,090	55,090	55,650	55,650	55,650
Depreciation	4,590	4,590	4,770	4,770	4,770
Property Taxes	790	790	880	880	880
Payroll Taxes	2,040	2,040	2,040	2,040	2,040
Income Taxes	<u>800</u>	<u>2,980</u>	<u>800</u>	<u>3,271</u>	<u>3,261</u>
Total Deductions	63,310	65,490	64,140	66,611	66,601
<u>Net Revenue</u>	(7,170)	12,140	(8,040)	11,009	10,974
Average Plant	199,660	199,660	209,080	209,080	209,080
Avg. Depr. Reserve	97,410	97,410	97,840	97,840	97,840
Net Plant	102,250	102,250	111,240	111,240	111,240
Less: Advances	0	0	0	0	0
Contributions	6,070	6,070	17,880	17,880	17,880
Plus: Working Cash	16,290	16,290	11,320	11,320	11,320
Mat'l & Suppl.	400	400	400	400	400
<u>Rate Base</u>	112,870	112,870	105,080	105,080	105,080
<u>Rate of Return</u>	(loss)	10.76%	(loss)	10.48%	10.44%

APPENDIX B
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COAST SPRINGS WATER COMPANY, INC.

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Dillon Beach and vicinity, located approximately 4 miles west of Tomales, Marin County.

RATES

Quantity Rate:

All water, per 100 cu.ft. \$ 2.95 (I)

Annual Service Charge

		<u>Per Meter</u>	
	<u>Charge</u>		<u>SDWBA</u>
	<u>Per Year</u>		<u>Surcharge</u>
			<u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 229.80	(I)	\$ 13.35
For 3/4-inch meter	321.00		20.00
For 1-inch meter	481.20		33.40
For 1-1/2-inch meter	722.40		66.75
For 2-inch meter	1,105.20	(I)	106.80

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)

SPECIAL CONDITIONS

1. The established billing cycle is every other month (bi-monthly). (T)
2. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. The surcharge is specifically for the repayment of the California SDWBA loan authorized by D.87-10-044. (T)

(continued)

APPENDIX B-2
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COAST SPRINGS WATER COMPANY, INC.

Schedule No. 1A
(continued)

ANNUAL GENERAL METERED SERVICE

3. Those customers who prefer to make the one time, up front cash payment for the SDWA loan authorized by D.87-10-044 shall be required to pay:

(T)

	<u>Upfront Payment</u>
For 5/8 x 3/4-inch meter	\$ 1,619.00
For 3/4-inch meter	2,429.00
For 1-inch meter	4,028.00
For 1-1/2-inch meter	8,095.00
For 2-inch meter	12,952.00

4. The annual service charge applies to service during the twelve month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least twelve months, he may elect at the beginning of the calendar year to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing cycle.
5. The opening bill for metered service shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the period of initial service, no refund of the initial annual charges shall be due the customer.

(T)

APPENDIX C
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COAST SPRINGS WATER COMPANY, INC.

COMPARISON OF RATES

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

METERED SERVICE

Present Rate	Recommended Rates	Per Meter Per Month Test Year 1991 Increase	
		Amount	Percentage

Quantity Charge:

Per Meter Per Month Test Year 1991

	Present Rate	Recommended Rates	Increase Amount	Increase Percentage
First 300 cu.ft., per 100 cu.ft.	\$ 1.70	\$ 2.95	\$ 1.25	73.5%
Over 300 cu.ft., per 100 cu.ft.	2.55	2.95	0.40	15.7%
All use, per 100 cu.ft.	-	2.95	-	-

Service Charge:

	Present	Recommended	Increase	Percentage
For 5/8 x 3/4-inch meter . . .	\$14.05	\$19.15	\$ 5.10	36.3%
For 3/4-inch meter . . .	19.60	26.75	7.15	36.5%
For 1-inch meter . . .	29.35	40.10	10.75	36.6%
For 1-1/2-inch meter . . .	44.00	60.20	16.20	36.8%
For 2-inch meter . . .	67.25	92.10	24.85	37.0%

Comparison of monthly bills for customers with a 5/8 x 3/4-inch meter at present and Branch recommended rates is shown below:

Usage 100 cu.ft.	Present Bills*	1991	
		Recommended Bills*	Increase Amt. Pct.
0	\$14.05	\$19.15	\$5.10 36.3%
3 (avg)	19.15	28.00	8.85 46.2%
5	24.25	33.90	9.65 39.8%
10	37.00	48.65	11.65 31.5%
15	49.75	63.40	13.65 27.4%
20	62.50	78.15	15.65 25.0%
30	88.00	107.65	19.65 22.3%
50	139.00	166.65	27.65 19.9%
100	266.50	314.15	47.65 17.9%

* Rates do not include surcharge for repayment of SDWBA loan.

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Page 1

COAST SPRINGS 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
Effective Date	1/1/90
Kwh Used - Total	19,006
Kwh Used - Summer	10,073
Kwh Used - Winter	8,933
\$/Kwh - Summer	0.12170
\$/Kwh - Winter	0.10006
Summer Charge	\$ 1,226
Winter Charge	\$ 894
Monthly Service Charge	\$ 7.50
Number of Pump Stations	6
Service Charge	\$ 540
Total Purchased Power	\$ 2,660

2. Purchased water None

3. Pump Tax - Replenishment Tax None

4. Ad Valorem Taxes	\$ 865
Composite Tax Rate	1.0101%
Assessed Value	\$85,635

5. Water Testing Expenses \$ 2,700

6. Service Connections:

Metered Rate	
5/8 x 3/4-inch meter	224
3/4-inch meter	0
1-inch meter	1
1-1/2-inch meter	1
2-inch meter	<u>0</u>

Total 226

Metered water sales used to design rates	835,300 cubic feet
	8,353 Ccf

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COAST SPRINGS WATER COMPANY, INC.

ADOPTED INCOME TAX CALCULATIONS
Test Year 1991

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 77,575	\$ 77,575
2.	Expenses	55,650	55,650
3.	Taxes Other Than Income	2,920	2,920
4.	Depreciation	4,770	4,770
5.	Interest	0	0
6.	Taxable Income for State Tax	14,235	
7.	State Tax @ 9.3% (\$800 Min.)	1,324	1,324
8.	Taxable Income for FIT		12,911
9.	Federal Income Tax @ 15%		1,937
10.	Total Income Tax		\$3,261