

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3653
June 17, 1992

RESOLUTION

(RES. W-3653) KENWOOD VILLAGE WATER COMPANY (KWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$20,500 (41.3%) IN 1992.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$20,500 or 41.3% for test year 1992. The increase will provide a 14.4% rate of return on rate base in test year 1992.

BACKGROUND

KWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on January 16, 1992, requests 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 \$36,375 or 75.0% in 1992. KWC's request shows 1992 gross revenue of \$48,520 at present rates increasing to \$84,895 at proposed rates to produce a rate of return on rate base of 15.0%. KWC presently serves approximately 253 metered customers in the unincorporated community of Kenwood Village located about eight miles southeast of Santa Rosa, Sonoma County.

The present rates became effective on December 21, 1987, pursuant to Commission Decision 87-10-071, which authorized a general rate increase producing \$7,405 or 20.3% additional annual revenue.

DISCUSSION

The Branch made an independent analysis of KWC's summary of earnings. Appendix A shows KWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1992. Appendix A also shows differences in operating revenues, operating expenses and rate base.

KWC was informed of the Branch's differing views of revenues, expenses and rate base and has stated that it accepts the Branch's estimates.

Decision 87-10-071, dated October 28, 1987, ordered KWC to establish a purchased water balancing account and for a one year period authorized an additional charge of \$0.13 per 100 cubic feet of water delivered for the amortization of undercollections in this account. The utility failed to remove this charge after the one year period expired. Thus, KWC has been overcharging customers \$0.13 per 100 cubic feet of water delivered since 1989. The Branch has calculated the total overcollection in the purchased water balancing account to be \$21,876 as of March 1992. The Branch recommends that KWC return the overcharge to its customers as a surcredit of \$0.40 per 100

cubic feet of water delivered until all funds are repaid. The Branch recommends that this surcredit remain effective for one year from the effective date of this resolution which will be approximately June 17, 1993.

When the Branch examined KWC's books of account, it discovered that some of the figures recorded in its annual reports to the Commission were inaccurate. The Branch recommends that KWC be ordered to report the amounts computed by the Branch for plant in service, depreciation reserve, advances for construction, and contributions in aid of construction contained in this resolution in the annual reports it files with the Commission in March, 1993 for the year 1992.

KWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 15.0%. The summary of earnings in Appendix A shows a rate of return of 14.4% at the Branch's recommended rates. This rate of return is at the high end of the 13.9% to 14.4% standard rate of return range recommended by the Branch for small, 100% equity financed, water utilities.

KWC's filed tariffs currently contain a metered rate schedule (Schedule No. 1, General Metered Service) and a flat rate schedule (Schedule No. 2, Flat Rate Service). The Branch's proposed metered rate design attempts to conform with current rate design policy for small water companies, as stated in D.92-03-093 dated March 31, 1992, which calls for the recovery of up to 100% of fixed costs through the service charge and a single block quantity rate. However, in this case, this conflicts with the Commission policy that no customer should receive an increase of more than twice the system's average. Therefore, in order not to increase any customer's billing by more than twice the system average, service charges were redesigned to recover approximately 62% of the fixed operating cost. KWC's flat rate schedule has no customers at the present time and there are unlikely to be any in the future. The Branch recommends that Schedule No. 2, Flat Rate Service be eliminated.

KWC's filed tariffs do not contain the recent revisions to its Title Page, Preliminary Statement, Rules 2, 3, 6, 7, 9, 12, 13, and 14. The Branch recommends that KWC be ordered to file these revisions to its tariffs.

As of April 22, 1992, Commission records show that KWC has not remitted to the Commission any user fees for 1990 and 1991. The Branch recommends that KWC be ordered to remit these past due fees within 60 days of the effective date of this resolution.

KWC has not been greatly affected by California's recent drought. The water levels in its well has remained constant over the past several years. In addition, KWC has a backup source of supply of water from the Sonoma County Aqueduct which has had no supply problems during the recent drought. For these reasons, the Branch believes that no further conservation measures should be ordered at this time.

At the Branch's recommended rates shown in Appendix B, the bill for a typical metered residential customer with a 5/8 by 3/4-inch meter using an average of 1680 cubic feet of water per month would increase from \$15.24 to \$22.01, or 44.4%, per month. A comparison of customer bills at present and recommended rates is shown in Appendix C.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on February 7, 1992. Two letters stating that, in the letter writers' opinion, the increase is too large were received by the Branch. The Commission's Consumer Affairs Branch (CAB) has received eight service complaints regarding KWC over the last three years. CAB's records indicate all complaints were satisfactorily resolved.

A public meeting was held on April 9, 1992, in KWC's service area. The Branch's representative explained Commission rate setting procedures, and the utility owner's representative explained the need for the rate increase. Seven customers and members of the public attended the public meeting and although some felt that the requested increase was too high, they all expressed an understanding of the need for a rate increase.

FINDINGS AND CONCLUSIONS

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. KWC should be ordered to report the values for plant in service, depreciation reserve, advances for construction, and contributions in aid of construction contained in this resolution in the annual reports it files with the Commission in March, 1993 for the year 1992.
5. Schedule No. 2, Flat Rate Service should be eliminated.
6. KWC's filed tariffs do not contain the recent revisions to its Title Page, Preliminary Statement, Rules 2, 3, 6, 7, 9, 12, 13, and 14. KWC should be ordered to file the most recent revisions to these tariffs when it files its revised rate schedules.
7. KWC has not remitted to the Commission any user fees for 1990 and 1991. KWC should be ordered to remit these past due fees within 60 days of the effective date of this resolution.
8. The rate increase authorized herein is justified, and the resulting rate is just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Kenwood Village Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendix A and B respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1 and 2. It shall also file the recent revisions to its Title

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Kenwood Village Water Co./Dr AL/DON:jlj

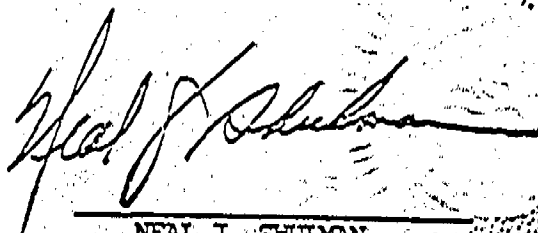
Page, Preliminary Statement, Rules 2, 3, 6, 7, 9, 12, 13, and 14. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.

2. KWC shall report the values for plant in service, depreciation reserve, advances for construction, and contributions in aid of construction contained in this resolution in the annual reports it files with the Commission in March, 1993 for the year 1992.

3. KWC shall remit to the Commission all past due user fees for 1990 and 1991 within 60 days of the effective date of this resolution.

4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 17, 1992. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

APPENDIX A

KENWOOD VILLAGE WATER COMPANY

SUMMARY OF EARNINGS
 Test Year 1992

ITEM	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	: Rates :
Operating Revenue					
Metered	\$ 48,520	\$ 84,895	\$ 49,680	\$ 87,406	\$ 70,180
Total Revenue	48,520	84,895	49,680	87,406	70,180
Operating Expense					
Purchased Water	1,675	1,675	340	340	340
Purchased Power	8,115	8,115	8,895	8,895	8,895
Other Vol Rel	200	200	200	200	200
Employee Labor	483	483	455	455	455
Materials	1,596	1,596	740	740	740
Contract Work	11,353	11,353	13,285	13,285	13,285
Transportation	2,324	2,324	2,000	2,000	2,000
Other Plant Maint	517	517	220	220	220
Office Salaries	3,078	3,078	3,420	3,420	3,420
Mgmt Salaries	7,500	8,000	11,400	11,400	11,400
Employee Pen & Ben	3,108	3,108	2,510	2,510	2,510
Uncollectibles	250	250	110	110	110
Office Serv & Rent	1,410	1,410	1,340	1,340	1,340
Office Supplies	3,500	3,500	3,500	3,500	3,500
Professional Serv	8,992	8,992	2,200	2,200	2,200
Insurance	3,087	3,087	2,200	2,200	2,200
General Expense	99	99	100	100	100
Reg. Comm. Exp.	300	300	300	300	300
Rate Case Prep.	728	1,204	0	0	0
Math Error	0	728	0	0	0
Subtotal	58,315	60,019	53,215	53,215	53,215
Depreciation	5,465	5,465	4,486	4,486	4,486
Non Income Tax	1,829	1,829	1,950	1,950	1,950
Income Taxes	0	4,172	800	6,360	2,412
Total Deductions	65,609	71,485	60,451	66,011	62,063
Net Revenue	(17,089)	13,410	(10,771)	21,395	8,117
Rate Base					
Average Plant	198,780	198,780	194,406	194,406	194,406
Avg Dep Res	56,650	56,650	62,468	62,468	62,468
Net Plant	142,130	142,130	131,938	131,938	131,938
Less Advances					
Contributions	21,290	21,290	20,800	20,800	20,800
	38,500	38,500	60,100	60,100	60,100
Plus Working Cash					
Mat'l & Supp	6,385	6,385	4,140	4,140	4,140
	675	675	1,187	1,187	1,187
Rate Base	89,400	89,400	56,365	56,365	56,365
Rate of Return	(Loss)	15.0%	(Loss)	38.0%	14.4%

(End of Appendix A)

APPENDIX B
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KENWOOD VILLAGE WATER COMPANY

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In the unincorporated area known as Kenwood Village, immediately north of Kenwood, Sonoma County. (T)
 (T)

RATES

Quantity Rates:

	<u>Per Meter Per Month</u>	
	<u>Charge</u>	<u>Surcredit * Purch. Power Bal. Acct</u>
For all water delivered, per 100 cubic feet.....	\$ 0.715 (I)	\$ 0.40 (C)

Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 10.00 (I)
For 3/4-inch meter.....	\$ 11.05
For 1-inch meter.....	\$ 15.00
For 1-1/2-inch meter.....	\$ 20.10
For 2-inch meter.....	\$ 27.10 (I)

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

*The surcredit will be in effect for 12 months from the effective date of this tariff. (T)
 (T)

(END OF APPENDIX B)

APPENDIX C

KENWOOD VILLAGE WATER COMPANY

COMPARISON OF RATES

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

METERED SERVICE

Service Charge:

	Present Rates	Per Meter Per Month		Increase Percentage
		Recommended Rates	Amount	
For 5/8x3/4-inch meter	\$ 5.50	\$10.00	\$ 4.50	81.8%
For 3/4-inch meter	6.05	11.05	5.00	82.6%
For 1-inch meter	8.25	15.00	6.75	81.8%
For 1-1/2-inch meter	11.00	20.10	9.10	82.7%
For 2-inch meter	14.85	27.10	12.25	82.4%

Quantity Rate:

For all water delivered per 100 cu.ft.....	\$ 0.58	\$ 0.715	\$ 0.265	45.7%
(Includes Surcharge at present rates and ultimate bill at recommended rates.)				

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

Monthly Usage 100 cu. ft.	Present Bills	Recommended Bills	Amount Increase	Percent Increase
0	\$ 5.50	\$10.00	4.50	81.8%
3	7.24	12.15	4.91	67.8%
5	8.40	13.58	5.18	61.7%
10	11.30	17.15	5.85	51.8%
16.8 (avg)	15.24	22.01	6.77	44.4%
20	17.10	24.30	7.20	42.1%
30	22.90	31.45	9.05	40.4%
50	34.50	45.75	11.25	32.6%

(END OF APPENDIX C)

Appendix D
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KENWOOD VILLAGE WATER COMPANY

ADOPTED QUANTITIES
Test Year 1992

Expenses

1. Purchased Power

Vendor	PG&E
Schedule No.	A-1
Effective Date	January 1, 1992
Winter	
Energy Charge per KWH	\$0.12279
Consumption	19,319 KWH
Summer	
Energy Charge per KWH	\$0.14940
Consumption	42,866 KWH
Energy Commission Surcharge	\$0.0002 per KWH
Service Charges \$8.75 per mo.	
Total Cost	\$8,895

2. Purchased Water

Vendor	Sonoma County Water Agency
Charges	
Rates	\$318.08 per AF
Consumption	0.445 AF
Service Charge	\$16.50 per mo.
Total Cost	\$340 per year

3. Insurance Expense

\$2,200

4. Ad Valorem Taxes

Composite Tax Rate	\$630
Assessed Value \$62,271	1.0117%

5. Other Expense

Water Testing (Included in Contract Work)	\$2,166
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Service Connections

Metered Rate

5/8 x 3/4-inch meter	245
3/4-inch meter	0
1-inch meter	5
1-1/2-inch meter	0
2-inch meter	3

Total

253

Metered Water Sales Used to Design Rates

54,460 ccf

Appendix D
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KENWOOD VILLAGE WATER COMPANY

ADOPTED TAX CALCULATIONS
Test Year 1992

Federal Tax Rate: 15.0%
California Corporate Franchise Rate: 9.3%
Local Franchise Rate: 0.0%

ITEM	State <u>Tax</u>	Federal <u>Tax</u>
1. Operating Revenue	\$70,180	\$70,180
2. O & M Expense	53,215	53,215
3. Taxes Other Than Income	1,950	1,950
4. Depreciation	4,486	4,486
5. Interest	0	0
6. Taxable Income for CCFT	10,529	
7. CCFT @ 9.3%	979	979
8. Taxable Income for FIT		9,550
9. Federal Income Tax @ 15%		1,433
10. Total Income Tax	\$2,412	

(END OF APPENDIX D)