

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3696
October 21, 1992

RESOLUTION

(RES. W-3696) ARMSTRONG VALLEY WATER COMPANY (AVW).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$33,502 (41.1%) IN 1992.

BY DRAFT ADVICE LETTER ACCEPTED ON MAY 6, 1992.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$33,502 or 41.1% for test year 1992. The increase will provide a 14.15% rate of return on rate base in test year 1992.

BACKGROUND

AVW, by draft advice letter accepted by the Water Utilities Branch (Branch) on May 6, 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 \$39,150 or 47.0% in 1992. AVW's request shows 1992 gross revenue of \$82,930 at present rates increasing to \$122,080 at proposed rates to produce a rate of return on rate base of 15.0%. AVW presently serves about 310 metered customers in the unincorporated community of Armstrong Woods Valley located approximately 1-1/2 miles north of the city limits of Guerneville and another district known as the Noel Heights Subdivision located approximately 2-1/2 miles southeasterly of the city limits of Guerneville in Sonoma County.

The present rates became effective on September 7, 1989, pursuant to Commission Resolution W-3464, which authorized a general rate increase producing \$3,752 or 4.94% additional annual revenue.

DISCUSSION

The Branch made an independent analysis of AVW's summary of earnings. Appendix A shows AVW'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.

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

AVW'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 14.15% at the Branch's recommended rates. This rate of return is at the midpoint of the 13.9% to 14.4% standard rate of return range recommended by the Branch for Class D water utilities.

AVW's filed tariffs currently contain a separate metered rate schedule (Schedule No. A-1A, Annual Metered Service and Schedule No. N-1A, Annual Metered Service) for each of its two service areas. The Branch's proposed metered rate design attempts to conform with current rate design policy for small water companies, as stated in Decision (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 80% of the fixed operating cost.

AVW has not been greatly affected by California's recent drought. The water levels in its wells have remained constant over the past several years. For this reason, 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 950 cubic feet of water per month would increase from \$22.16 to \$31.06, or 40.2%, per month. A comparison of customer bills at present and recommended rates is shown in Appendix C.

AVW requested recovery of Department of Health Services (DHS) fees in this filing. By Resolution No. W-3641, dated May 8, 1992, the Commission authorized each water utility regulated by the Commission and subject to the provisions of Health and Safety Code Sections 4020 and 4020.5 to establish a memorandum account in which to record payment of DHS Office of Drinking Water fees resulting from those code sections and, after having recorded payment of fees authorized, to file an advice letter as prescribed by G.O. 96-A to request recovery of those costs. AVW has agreed to request recovery of its DHS fees using that procedure.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on May 14, 1992. Six letters were received from customers, complaining primarily of the large increase in the service charges (ranging from 219% to 858%). The Branch redesigned the rates to reflect a more balanced rate design in which no customer will receive an increase exceeding 81%. The Commission's Consumer Affairs Branch has received no service complaints regarding AVW over the last three years.

A public meeting was held on June 17, 1992, in AVW's service area. The Branch's representative explained Commission rate setting procedures, and the utility owner explained the need for the rate increase. Thirty-eight customers, including the Guerneville Fire Protection District Fire Chief, attended the public meeting and registered complaints about the poor quality of the water, the magnitude of the rate increase and inadequate water flow for fire protection. The utility owner explained that AVW water met all DHS standards and that the dirty water could have come from old galvanized plumbing in their residences.

AVW is aware that its water system does not meet the present fire flow requirements. However, it claims that at the time of installation, its water system did meet all the local and General Order (G.O.) 103 requirements. In addition, AVW informed the Branch that it did not have sufficient funds to undertake an expansive water main replacement program which would meet the fire flow requirements. It is willing to continue complying with the requirements of Section VIII.1.b of G.O. 103 which requires that all replacement of mains initiated by the company be sized to accommodate the governing fire flow requirements. This is consistent with the Commission's policy explained in Section I.1.a. of G.O. 103, which states in part that "Nothing contained in any of the rules herein promulgated shall be construed to require the replacement or abandonment prior to the expiration of economic utilization of facilities in use at the time of adoption of these rules".

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. 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 Armstrong Valley Water Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendix A and B, respectively, and concurrently to cancel its presently effective rate Schedule Nos. A-1A, Annual Metered Service, and N-1A, Annual Metered Service. 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. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on October 21, 1992. The following Commissioners approved it:

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


NEAL J. SHULMAN
Executive Director

APPENDIX A

ARMSTRONG VALLEY WATER COMPANY

SUMMARY OF EARNINGS
 Test Year 1992

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Metered	\$82,930	\$122,080	\$81,558	\$120,552	115,060
Flat Rate	0	0	0	0	0
Total Revenue	82,930	122,080	81,558	120,552	115,060
Operating Expenses					
Purchased Power	8,430	8,430	8,010	8,010	8,010
Other Vol Rel	120	120	120	120	120
Employee Labor	21,200	21,200	21,200	21,200	21,200
Materials	3,400	3,400	3,245	3,245	3,245
Contract Work	4,790	4,790	3,290	3,290	3,290
Transportation	3,070	3,070	3,070	3,070	3,070
Other Plant Maint	0	0	0	0	0
Office Salary	9,580	9,580	9,580	9,580	9,580
Mgmt Salaries	3,020	3,020	3,020	3,020	3,020
Employee Benefits	7,530	7,530	7,442	7,442	7,442
Uncoll Accounts	0	0	0	0	0
Off Serv & Rent	2,520	2,520	2,520	2,520	2,520
Office Supplies	4,330	4,330	4,136	4,136	4,136
Professional Serv	3,300	3,300	3,300	3,300	3,300
Insurance	5,270	5,270	5,438	5,438	5,438
General Expenses	3,930	3,930	1,185	1,185	1,185
Reg Comm Expense	240	240	250	250	250
Subtotal	80,730	80,730	75,806	75,806	75,806
Depreciation	5,360	5,360	5,324	5,324	5,324
Non Income Tax	4,930	4,930	4,852	4,852	4,852
Income Taxes	800	7,120	800	7,968	6,660
Total Deductions	91,820	98,140	86,782	93,950	92,642
Net Revenue	(8,890)	23,940	(5,224)	26,602	22,418
Rate Base					
Average Plant	231,440	231,440	229,950	229,950	229,950
Average Dep Res	70,070	70,070	70,060	70,060	70,060
Net Plant	161,370	161,370	159,890	159,890	159,890
Less Advances					
Contributions	570	570	570	570	570
	4,450	4,450	4,460	4,460	4,460
Plus Working Cash					
Mat'l & Supp	3,280	3,280	0	0	0
	3,600	3,600	3,600	3,600	3,600
Rate Base	*159,630	*159,630	158,460	158,460	158,460
Rate of Return	(5.57%)	15.00%	(3.30%)	16.79%	14.15%

* This figure submitted by the utility was in error; should be \$163,230.

APPENDIX B
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Schedule No. A-IA

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Armstrong Woods Valley, Lone Mountain Subdivision and vicinity, located approximately 1-1/2 miles north of the city limits of Guerneville, Sonoma County.

RATES

Quantity Rate:

All Water, per 100 cu. ft. \$1.691 (I)

Service Charge:

	<u>Per Meter</u> <u>Per Year</u>		<u>SDWBA</u> <u>Yearly</u> <u>Surcharge</u>
For 5/8 x 3/4-inch meter	\$180.00 (I)		\$118.20
For 3/4-inch meter	200.00 (I)		177.30
For 1-inch meter	270.00 (I)		295.50
For 1-1/2-inch meter	360.00 (I)		591.00
For 2-inch meter	490.00 (I)		945.60
For 3-inch meter	900.00 (I)		1,773.00

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.

APPENDIX B
Page 2

Schedule No. N-1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Noel Heights Subdivision located on the east side of State Highway 116, approximately 2-1/2 miles southeasterly of the Guerneville City Limits, Sonoma County.

RATES

Quantity Rate:

All water, per 100 cu. ft\$ 1.691 (I)

Service Charge:

	<u>Per Meter Per Year</u>	<u>SDWEA Yearly Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 180.00 (I)	\$ 72.00
For 3/4-inch meter	200.00 (I)	108.00
For 1-inch meter	270.00 (I)	180.00
For 1-1/2-inch meter	360.00 (I)	260.00
For 2-inch meter	490.00 (I)	576.00

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.

APPENDIX C

COMPARISON OF RATES

A comparison of the present and Branch's recommended rates for schedule A-1A is shown below:

METERED SERVICE

Annual Service Charge:

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For 5/8 x 3/4-inch meter	\$100.20	\$180.00	79.64
For 3/4-inch meter	110.40	200.00	81.16
For 1-inch meter	151.20	270.00	78.57
For 1-1/2-inch meter	201.60	360.00	78.57
For 2-inch meter	273.00	490.00	79.49
For 3-inch meter	501.00	900.00	79.64

Quantity Rate:

Per 100 cu.ft	\$1.454	\$1.691	16.30%
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A comparison of monthly bills for customers served by a 5/8 x 3/4-inch meter at present and Branch recommended rates under Schedule A-1A:

<u>Monthly Usage 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Percent Increase</u>
0	\$ 8.35	\$15.00	79.64
3	12.71	20.07	57.91
5	15.62	23.46	50.19
5.7*	16.64	24.64	48.07
9.5**	22.16	31.06	40.16
10	22.89	31.91	39.41
15	30.16	40.37	33.84
20	37.43	48.82	30.43
30	51.97	65.73	26.48
40	66.51	82.64	24.25
50	81.05	99.55	22.83

* Average usage in Noel Heights service area.

** Average usage in Armstrong Valley service area.

APPENDIX D
Page 1

ADOPTED QUANTITIES
Test Year 1992

Expenses:

1.	Purchased Power	\$8,010
	Vendor	PG&E
	Rate Schedule	A-1
	Effective Date	January 1, 1992
	Monthly Rates	
	Noel Heights Service Charge	\$7.50
	AVW Service Charge	\$8.75
	Security Light Charge	\$7.97
	Summer	\$0.14940 per kWh
	Winter	\$0.12279 per kWh
	Summer quantity	30,679 kWh
	Winter quantity	29,649 kWh
2.	Purchased Water	None
3.	Payroll	\$33,800
	Management Salary	\$ 3,020
	Office Salary	\$ 9,580
	Employee labor	\$21,200
4.	Ad Valorem Taxes	\$915
	Noel Heights Tax Rate	1.0158%
	Noel Heights Assessed Value	\$17,465
	Special Assessments	\$25
	Armstrong Tax Rate	1.0158%
	Armstrong Assessed value	\$44,158

Service Connections

	Metered Rate Customers	310
	Flat Rate Customers	None
Water Sales Used to Design Rates		34,542 Ccf

APPENDIX D
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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	\$115,060	\$115,060
2. O & M Expenses	75,806	75,590
3. Taxes Other Than Income	4,852	4,852
4. Depreciation	5,324	5,324
5. Interest	0	0
6. Taxable Income for CCFT	29,078	
7. State Tax @ 9.3% \$800 min	2,704	
8. Taxable Income for FIT		26,374
9. Federal Income Tax @ 15%		3,956
10. Total Income Tax		\$6,660