

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3714  
November 23, 1992

## RESOLUTION

(RES. W-3714) RURAL WATER COMPANY (RWC). ORDER AUTHORIZING  
A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE  
OF \$21,968 OR 17.9% IN 1992.

BY DRAFT ADVICE LETTER ACCEPTED ON AUGUST 12, 1992.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$21,968 or 17.9% for test year 1992. This increase will provide a 14.15% rate of return on rate base in test year 1992.

BACKGROUND

RWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on August 12, 1992, requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$45,835 or 37.4% in 1992. RWC's request shows 1992 gross revenue of \$122,700 at present rates increasing to \$168,535 at proposed rates to produce a 14.15% return on rate base. RWC presently serves 237 metered rate customers located in an area approximately three miles south of Oceana, San Luis Obispo County.

The present rates became effective on December 24, 1988, pursuant to Decision 88-10-029 which authorized a general rate increase of \$16,115 or 32.00%.

DISCUSSION

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

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

Enactment of Assembly Bill 2158 by the State Legislature requires the Department of Health Services (DHS) to adopt regulations establishing an annual billing procedure for the collection of funds from all public water systems in California to carry out the State's drinking water program. Since RWC will be required to pay its share of the DHS fee, the Branch recommends that RWC be allowed to file an advice letter rate increase request to offset the annual fee once it has been officially determined and the bill has been received.

RWC's draft advice letter requested rates which it estimated would produce a 14.15% rate of return on rate base. The summary of earnings in Appendix A also shows a 14.15% rate of return at the Branch's recommended rates. This rate of return is the mid-point of the 13.90% to 14.40% standard rate of return range recommended by the Branch for small 100% equity financed water utilities.

RWC's current rate structure is made up of three schedules: Schedule No. 1, General Metered Service; Schedule No. 2, Residential Flat Rate Service; and Schedule No. 5, Public Fire Hydrant Service.

Even though RWC does not have any flat rate service connections, the Branch recommends increasing both the service charge and the quantity charge by the system average percentage increase. This will continue the present rate design situation that if a flat rate customer using the system average of 23 Ccf per month were to change to metered rates, such customer would pay approximately the same amount.

Pursuant to Section 2713 of the Public Utilities Code, RWC is prohibited from charging any rates for service under Schedule No. 5, Public Fire Hydrant Service, without a formal agreement with a local fire protection agency. Because RWC has no such agreement, the Branch recommends that Schedule No. 5 should be cancelled.

RWC's filed tariffs do not contain the recent revisions to its preliminary statement. RWC should be ordered to file the most recent revisions to this tariff sheet when it files its revised rate schedules.

RWC's source of water supply, the Santa Maria Basin and Nipomo Sub-Basin aquifer, has not been significantly affected by California's current drought. 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 flat rate residential customer with a 5/8-inch service would increase from \$39.06 per month to \$45.18 or an increase of 15.7%, per month. A comparison of customer bills at present and Branch recommended rates is shown in Appendix C.

#### NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on August 19, 1992. The Branch received phone calls and letters representing approximately twenty percent of the ratepayers (45 connections) regarding the proposed rate increase. The protestants' letters stated the increase was too large; there were no complaints regarding service.

On October 5, 1992, a public meeting was held in the RWC's service area for all ratepayers. The owner, and his accountant, explained why the company was requesting the increase to the 31 ratepayers present at the meeting that was

facilitated by Senior Utilities Engineer, Art Mangold. The owner, Mr. Baker, explained that fixed costs have increased and in order to receive a reasonable return on the rate base an increase was required. At this meeting, they also complained about: (1) need for a more responsive emergency service, (2) the water requires an elaborate water softening treatment to be palatable, and (3) the latest hydrants installed have not been tested, have no pressure, or leak. Overall the ratepayer comments were based on amount of the rate increase and not on the quality of the water or of RWC's service. RWC's owner assured the customers that he would take care of all service-related problems. As far as water quality is concerned, it meets State Department of Health Services's potable water standards. The installation of treatment plant to soften water would be very expensive. The Commission's Consumer Affairs Branch has received 11 complaints against RWC over the last four years that were resolved over the phone.

#### 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. RWC's filed tariffs do not contain the recent revisions to its preliminary statement. RWC should be ordered to file the most recent revisions to this tariff when it files its revised rate schedules.
5. RWC's tariff Schedule No. 5, Public Fire Hydrant Service is no longer applicable and should be canceled.
6. The rate increase authorized herein is justified, and the resulting rate is just and reasonable.

#### IT IS ORDERED that:

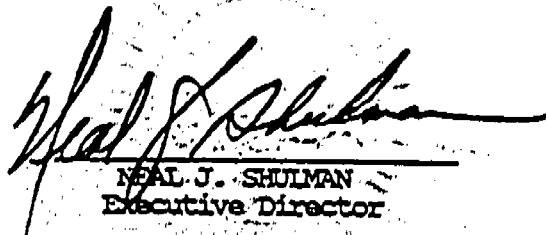
1. Authority is granted under Public Utilities Code Section 454 for Rural Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1, 2, and 5. It shall also file the recent revisions to its preliminary statement. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be five days after the date of filing.

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2. Rural Water Company's filed tariff Schedule No. 5, Public Fire Hydrant Service is cancelled.

3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on November 23, 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

RURAL WATER COMPANY  
SUMMARY OF EARNINGS  
Test Year 1992

ITEM	Utility Estimated		Branch Estimated		Adopted
	Present	Requested	Present	Requested	
	Rates	Rates	Rates	Rates	Rates
<b>Operating Revenue</b>					
Metered Rates	\$122,700	\$168,535	\$122,700	\$144,668	\$144,668
Total Revenue	122,700	168,535	122,700	144,668	144,668
<b>Operating Expenses</b>					
Purchased Power	31,000	31,000	23,166	23,166	23,166
Transportation Exp.	1,500	1,500	1,500	1,500	1,500
Contract Work	18,000	18,000	18,000	18,000	18,000
Materials	400	400	400	400	400
Management Salaries	30,000	30,000	25,000	25,000	25,000
Office Services & Rent	3,600	3,600	3,215	3,215	3,215
Office Supplies & Exp.	4,000	4,000	2,700	2,700	2,700
Professional Services	15,000	15,000	15,000	15,000	15,000
Insurance	9,400	9,400	5,000	5,000	5,000
General Expenses	2,500	2,500	2,000	2,000	2,000
Reg. Commission Exp.	3,000	3,000	1,000	1,000	1,000
Subtotal	118,400	118,400	96,981	96,981	96,981
Depreciation	7,600	7,600	7,600	7,600	7,600
Taxes Other Than Inc.	6,400	6,400	6,400	6,400	6,400
Income Taxes	800	6,734	800	7,716	7,716
Total deductions	133,200	139,134	111,781	118,697	118,697
<b>Net Revenue</b>	(10,500)	29,401	10,919	25,971	25,971
<b>Rate Base</b>					
Average Plant	1,606,436	1,606,436	1,606,436	1,606,436	1,606,436
Average Dep'n Resv.	228,518	228,518	252,761	252,761	252,761
Net Plant	1,377,918	1,377,918	1,353,675	1,353,675	1,353,675
Less Contributions	1,184,265	1,184,265	1,184,265	1,184,265	1,184,265
Plus Mat'l & Supplies	400	400	400	400	400
Working cash	13,730	13,730	13,730	13,730	13,730
<b>Rate Base</b>	207,783	207,783	183,540	183,540	183,540
<b>Rate of Return</b>	loss	14.15%	5.95%	14.15%	14.15%

(END OF APPENDIX A)

APPENDIX B  
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RURAL WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Tract 151, and vicinity, located approximately 2 miles southeast of the community of Oceana, San Luis Obispo County.

RATES

Quantity Rate:	Per Meter Per Month	
All water, per 100 cu.ft. ....	\$ 1.46	(I)
Monthly Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 11.60	(I)
For 3/4-inch meter .....	12.80	
For 1-inch meter .....	17.40	
For 1-1/2-inch meter .....	23.25	
For 2-inch meter .....	31.40	
For 3-inch meter .....	58.05	
For 4-inch meter .....	79.05	(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 Rate.

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APPENDIX B

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RURAL WATER COMPANY

Schedule No. 2

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The unincorporated area known as Tract 151, and vicinity, located approximately 2 miles southeast of the community of Oceana, San Luis Obispo County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single-family residence . . . . .	48.40	(I)

SPECIAL CONDITIONS

1. The above flat rate applies to a service connection not larger than one-inch in diameter.
2. If the utility so elects, a meter shall be installed and service will be provided under Schedule No.1, General Metered Service.

(END OF APPENDIX B)

APPENDIX C  
 Page 1

RURAL WATER COMPANY

COMPARISON OF RATES

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

METERED SERVICE  
Schedule No. 1

Quantity Rate:

	<u>Per Meter Per Month</u>		<u>Increase</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount</u>	<u>Percent</u>
Per 100 cu. ft.....	\$1.27	\$1.46	\$ 0.19	15.0%
Service Charge:				
For 5/8 x 3/4-inch meter.....	9.85	11.60	1.75	17.8%
For 3/4-inch meter.....	10.85	12.80	1.95	18.0%
For 1-inch meter.....	14.75	17.40	2.65	18.0%
For 1-1/2-inch meter.....	19.70	23.25	3.55	18.0%
For 2-inch meter.....	26.60	31.40	4.80	18.0%
For 3-inch meter.....	49.20	58.05	8.85	18.0%
For 4-inch meter.....	67.00	79.05	12.05	18.0%

Comparison of monthly customer bills at present and Branch recommended rates for a 5/8 x 3/4-inch meter:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 9.85	\$11.60	\$ 1.75	17.8%
5	16.20	18.90	3.60	16.7%
15	28.90	33.50	7.30	15.9%
23 avg.	39.06	45.18	10.26	15.7%
30	47.95	55.40	12.85	15.5%

FLAT RATE SERVICE  
Schedule No. 2

	<u>Per Service Per Month</u>		<u>Amount Increase</u>	<u>Percentage Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>		
For a single family residence	41.00	48.40	7.40	18.0%

(END OF APPENDIX C)



RURAL WATER COMPANY

ADOPTED QUANTITIES

Expenses:

1. Purchased Power

Vendor	Pacific Gas & Electric
Schedule Nos.	A-1P A-6P A-10P
Effective Date	January 1, 1992
Average Energy Charge per KWH	\$ 0.06829
Consumption	340,006 kWh
Energy Commission Surcharge	\$ .00020 per kWh
Total Cost	\$23,287 per year

2. Purchased Water

None

3. Insurance Expense

\$5,000

4. Ad Valorem Taxes

Composite Tax Rate	\$2,900
Assessed Value	1.0163%
	\$285,350

5. Water Testing Expense  
(Included in Contract Work)

\$2,500

Service Connections

Metered Rates:

5/8-inch service	195
3/4-inch service	34
1-inch service	5
1-1/2-inch service	1
2-inch service	2

Total 237

Total Water Pumped

75,500 Ccf

APPENDIX D  
Page 2

RURAL WATER COMPANY

ADOPTED TAX CALCULATIONS  
Test Year 1992

Federal Tax Rate: 15%  
State Tax Rate: 9.3%

Item	<u>State Tax</u>	<u>Federal Tax</u>
1. Operating Revenue	\$144,668	\$144,668
2. O & M Expense	96,981	96,981
3. Taxes Other Than Income	6,400	6,400
4. Depreciation	7,600	7,600
5. Interest	0	0
6. Taxable Income for CCFT	33,687	
7. CCFT @ 9.3% (\$800 min. if Corp.)	3,133	3,133
8. Taxable Income for FIT		30,554
9. Federal Income Tax @ 15%		4,583
10. Total Income Tax		\$7,716

(END OF APPENDIX D)