

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4010
November 26, 1996

R E S O L U T I O N

(RES. W-4010), COAST SPRINGS WATER COMPANY, INC.
(CSW). ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$54,758 OR
65.6% IN 1996.

BY DRAFT ADVICE LETTER ACCEPTED ON JULY 2, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$54,758 or 65.6% for test year 1996. The revenue requirement includes the interim rate increase granted on July 17, 1996, by Res. W-3993 and is calculated using the operating ratio method to allow for a 20% margin. This calculation produces a rate of return on ratebase of 17.75%.

BACKGROUND

CSW requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$76,300 or 91% in 1996. CSW subsequently amended its request by lowering it to \$65,540 or 78%. CSW's request shows 1996 gross revenue of \$83,645 at present rates increasing to \$149,185 in 1996 to produce a rate of return of 14.25%. CSW presently serves 237 metered customers in Dillon Beach and Oceana Marin areas of Marin County.

The present rates became effective on July 17, 1996, pursuant to Res. W-3993, which authorized an interim rate increase of \$16,338 or 20%. The last general rate increase was approved on December 19, 1990, by Res. W-3535, which approved an increase of \$21,475 or 38.3%.

DISCUSSION

The Small Water Branch (Branch) made an independent analysis of CSW's summary of earnings and issued its report in October 1996. Appendix A shows CSW's and the Branch's estimated summaries of earnings at present, requested and adopted rates for the test year 1996. Appendix A also shows differences in the estimates of revenues and operating expenses.

CSW was informed of the Branch's differing views of revenues and expenses and stated that it agreed with the Branch's findings.

Because of his poor health, the owner of CSW is unable to operate the utility and has requested assistance from the Department of Health Services (DHS).

DHS has ordered CSW to develop an emergency and backup operations plan and advised the owner to have an assistant certified to operate the treatment plant. At the same time, the customers have formed the Coast Springs Water Company Customer Committee to pursue annexation to the adjacent North Marin Water District. The Branch is concerned about the status of the utility and will recommend to the Commission that CSW keep the Commission informed about its annexation status and if no action occurs within six months, CSW should be ordered to hire a management company to run its operations until a change of ownership takes place.

In Decision (D.) 92-03-093, dated April 30, 1992, the Commission adopted the Operating Ratio Method (ORM) as an alternative to the standard Return on Ratebase Method for Class C and D water utilities. Accordingly, the Branch applied these two methods to CSW's request. The return on investment calculation produced a revenue requirement of \$132,500 at a rate of return of 13.25%, the midpoint of the 12.75% to 13.75% standard rate of return recommended by the Finance Branch. With a 20% margin, the ORM produced a revenue requirement of \$138,180 and a rate of return on ratebase of 17.75%. In accordance with D.92-03-093, the Branch must recommend the higher of the two revenue requirements to the Commission.

There are no outstanding Commission orders requiring improvements. CSW has not filed updated tariff sheets for tariff Rule Nos. 7, 10, 20, and 21, and Form No. 2.

CSW's filed tariffs currently contain one schedule: Schedule No. 1A, Annual General Metered Service.

Current water rate design policy as set by D.92-03-093 allows CSW to recover up to 100% of its fixed costs through its service charges. In addition, Branch guidelines call for no rate element to increase by more than twice the system average increase. The rate schedule included as Appendix B meets these criteria.

At the Branch's recommended rates shown in Appendix B, the bi-monthly bills for a typical metered water customer using 600 cubic feet of water through a 5/8 x 3/4-inch meter will increase from \$57.5 to \$94.88. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on July 5, 1996. The Branch received nine letters protesting the magnitude of the rate increase. The Commission's Consumer Affairs Branch has not received any complaints since January of 1995.

A public meeting was held on Wednesday July 31, 1996, at the Tomales Town Hall in Tomales, California. The Branch's representative explained Commission rate setting procedures and the utility's representative explained the need for the rate increase. About 50 customers attended the meeting with their primary concerns being the operating expenses, quality of the water, and the long-term future of the company. The Department of Health Services' (DHS) representative stated that in the past, CSW had been in and out of compliance with the State and Federal safe drinking water standards but that it had not had any problems in the last few months.

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.
5. CSW should be ordered to notify the Commission of its annexation status and hire a management company if there is no change in ownership within 180 days of the date of the order.
6. CSW should be ordered to file updated tariff Rule Nos 7, 10, 20, and 21, and Form 2.

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 the revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. 1A, Annual General 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 its filing.
2. Within 180 days of the effective date of this order, Coast Springs Water Company, Inc. shall notify the Commission of its annexation status and hire a management company if there is no change of ownership.
3. Within 90 days of the effective date of this order, Coast Springs Water Company, Inc. shall file the following updated tariff sheets: Rules 7, 10, 20, and 21, and Form 2.

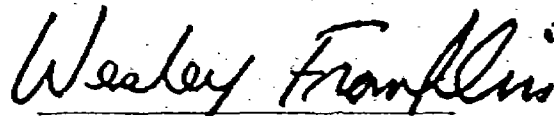
APPENDIX A
 COAST SPRINGS WATER CO., INC.
 SUMMARY OF EARNINGS
 Test Year 1996

	Present Rates		Amount Utility Exceeds Staff		Proposed Rates		Amount Utility Exceeds Staff		Recommended Rates Staff
	Staff	Utility			Staff	Utility			
Operating Revenues:									
Metered	83,422	83,645	223	0.3%	151,191	149,165	(2,006)	-1.3%	138,180
Operating Expenses:									
Power	5,850	6,000	150	3%	5,850	6,000	150	3%	5,850
Other Vol. Rel. Exp.	780	1,000	220	28%	780	1,000	220	28%	780
Employee Labor	26,000	27,600	1,600	6%	26,000	27,600	1,600	6%	26,000
Material	1,260	2,900	1,640	130%	1,260	2,900	1,640	130%	1,260
Contract Work	20,750	17,225	(3,525)	-17%	20,750	17,225	(3,525)	-17%	20,750
Transportation	2,375	2,375	0	0%	2,375	2,375	0	0%	2,375
Other Plant Maint. Exp.	5,200	3,480	(1,720)	-33%	5,200	3,480	(1,720)	-33%	5,200
Office Salaries	11,800	9,515	(2,285)	-19%	11,800	9,515	(2,285)	-19%	11,800
Management Salaries	5,000	12,000	7,000	140%	5,000	12,000	7,000	140%	5,000
Employee Pen. & Ben.	2,580	0	(2,580)	-100%	2,580	0	(2,580)	-100%	2,580
Uncollectibles	100	100	0	0%	100	100	0	0%	100
Office Service & Rentals	1,800	4,115	2,315	129%	1,800	4,115	2,315	129%	1,800
Office Supplies & Exp.	2,510	3,950	1,440	57%	2,510	3,950	1,440	57%	2,510
Professional Services	6,205	7,000	795	13%	6,205	7,000	795	13%	6,205
Insurance	5,700	7,400	1,700	30%	5,700	7,400	1,700	30%	5,700
Commission Exp.	2,520	2,400	(120)	-5%	2,520	2,400	(120)	-5%	2,520
General Expense	2,240	3,570	1,330	59%	2,240	3,570	1,330	59%	2,240
Total Operating Exp.	102,670	110,630	7,960	8%	102,670	110,630	7,960	8%	102,670
Depreciation	5,790	6,400	610	11%	5,790	6,400	610	11%	5,790
Tax Other Than Inc. Tax	6,265	5,403	(862)	-14%	6,265	5,403	(862)	-14%	6,265
State Corp. Franc. Tax	800	800	0	0%	1,708	2,488	780	46%	800
Federal Corp. Inc. Tax	0	0	0	0%	2,642	3,640	998	38%	827
Total Deductions	115,525	123,233	7,708	7%	119,075	128,561	9,486	8%	116,351
Net Income (Loss)	(32,102)	(39,588)	(7,486)	23%	32,116	20,624	(11,492)	-36%	21,829
Rate Base:									
Average Plant	243,658				243,658				243,658
Average Depr. Reserve	126,097				126,097				126,097
Net Plant	117,561				117,561				117,561
Less: Advances									
Contributions	12,035				12,035				12,035
Add: Working Cash	17,112				17,112				17,112
Materials & Supplies	350				350				350
Rate Base	122,988	144,743	21,755	18%	122,988	144,743	21,755	18%	122,988
Rate Of Return					26.11%	14.25%			17.75%

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4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on November 26, 1996. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President
DANIEL Wm. FESSLER
JESSIE J. KNIGHT, Jr.
JOSHUA L. NEEPER
Commissioners

Commissioner Henry M. Duque, being necessarily absent, did not participate.

APPENDIX B

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 Rates:

All Water, per 100 cu. ft. \$ 5.98 (I)

Annual Service Charge:

	<u>Charge</u> <u>Per Year</u>		<u>SDWBA</u> <u>Surcharge</u> <u>Per Month</u>
For 5/8 x 3/4-inch water	\$ 354.00	(I)	\$ 13.35
For 3/4-inch meter	531.00		20.00
For 1-inch meter	885.00		33.40
For 1 1/2-inch meter	1,770.00		66.75
For 2-inch meter	2,832.00	(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.

SPECIAL CONDITIONS

1. The established billing cycle is every other month (bi-monthly).
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.

(END OF APPENDIX B)

Department of Health Services had ordered them to hire a certified water treatment plant operator. Ms. Colette also pointed out that although employee salaries had gone up management salaries had gone down. For the most part the customers appeared to be satisfied but not happy with the expenses.

The customers asked many questions about the system, such as what the company was doing about the poor condition of one of the two tanks, they were concerned about the turbidity in the water and questioned the amount of money that was spent on water testing since the quality of the water had not improved, most of the customers said that they bought bottle water for drinking and cooking. They also spoke about the treatment plant how some people were paying a surcharge and that and some customers had paid \$1,800 upfront; they wanted to know when the debt was going to be paid off and indicated that when they made the investment they were told it would take care of the water quality problems which has not happened. At this point, Mr. John Andrew a representative from the Department of Health Services spoke regarding the water quality. He stated that in the past CSWC had been in and out of compliance with the State and Federal safe drinking water standards but that the utility had not had any problems in the last couple of months. He also said that CSWC treatment plant was designed by the old water standards and that the EPA is constantly updating them and increasing the number of chemicals and organisms to be tested for and that the company is doing only the required water testing. He also spoke about the owner of the company who through "labor of love" had kept operating costs down by doing as much of the work himself but is not able to do that anymore. DHS has required that all work previously done by him be contracted out and in this remote area they have no choice but to give the contract work to the neighboring North Marin Water District (NMWD). He also said that CSWC main problem is that it needs to find a new source of water supply.

Another item of great concern was the long term future of CSWC, some of the customers were under the impression that the company was going to be sold to NMWD. During this question and answer period Ms. Gayle Smalley, representing NMWD spoke about the possibility of NMWD acquiring CSWC. She said that a committee was formed by customers of CSWC to look into the possibility of annexing CSWC either to a mutual water company that is currently serving the adjacent Oceana-Marin homes or to NMWD. The mutual water company is in financial trouble and not an option. Ms. Smalley said that the Board of Directors of NMWD will only take it over if it has the overwhelming support from CSWC customers. Ms. Smalley did not know what procedures were necessary for annexation but she cautioned the customers that NMWD will reluctantly agree to take over CSWC only when the community realizes that it will be at a high cost to the customers of CSWC. She spoke of the need to improve the system and that the customers need to put that money upfront. She said the rates would definitely be increased if NMWD takes over the company.

At this point most customers stated that since CSWC was approved for a 20% increase that the Commission take a wait and see attitude

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and not allow any additional increase until the company was sold. A few customers still had the impression that the reason for the rate increase was to hike up the price of CSWC. It was also mentioned that a rate increase at this time would be a hardship on senior citizens who are on a fixed income.

The meeting was adjourned at approximately 9 p.m. Both the staff representative and the utility representatives remained to answer individual questions.

(END OF APPENDIX E)

APPENDIX C

COAST SPRINGS WATER COMPANY, INC.

COMPARISON OF RATESMETERED SERVICE

	<u>Per Meter Bi-Monthly</u>		Percent Increase (Decrease)
	<u>Present Rates</u>	<u>Proposed Rates TY 96</u>	
For 5/8 x 3/4-inch meter	\$ 236.00	\$ 354.00	50.1%
For 3/4-inch meter	330.00	531.00	60.9%
For 1-inch meter	494.00	885.00	79.1%
For 1 1/2-inch meter	742.00	1,770.00	138.5%
For 2-inch meter	1,135.00	2,832.00	150.0%

Quantity Rates:

All water, per 100 cu.ft.	\$ 3.03	\$ 5.98	97.4%
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Comparison of the bi-monthly typical bills for residential metered customers with a 5/8 x 3/4-inch is shown below at rates prior to the interim increase authorized in Resolution W-3933 and recommended rates for test year 1996.

<u>Usage 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
0	\$ 39.33	\$ 59.00	\$ 19.67	50.0%
4	51.45	82.92	31.47	61.2%
6 avg	57.51	94.88	37.37	65.0%
8	63.57	106.84	43.27	68.1%
10	69.63	118.80	49.17	70.6%

(END OF APPENDIX C)

APPENDIX D
Sheet 1

COAST SPRINGS WATER COMPANY, INC.

ADOPTED QUANTITIES

Test Year 1996

Offset Items

1. Purchased Power

Pacific Gas and Electric Company
Effective Date January 1, 1996
Rate Schedule A-1 Small General Service

Customer Charge:	Per Meter Per Month
Single-phase service	\$ 8.10
Polyphase Service	\$ 12.00
Energy charge (per kWh)	
Summer	\$0.14870
Winter	\$0.10193
Total Cost	\$ 5,850
Total kWh	40,966
Average Unit Cost \$/kWh	\$ 0.143
2. Payroll	
Employee Labor	\$ 26,000
Office Salaries	11,800
Management Salaries	5,000
3. Payroll Taxes	\$ 4,815
4. Ad Valorem Taxes	\$ 1,450

APPENDIX D
Sheet 2

COAST SPRINGS WATER COMPANY, INC.

ADOPTED QUANTITIES

Test Year 1996

Service Connections

1. Meter Size

3/4 x 5/8"	235
3/4"	1
1"	1
1-1/2"	0
2"	0
Total Metered	<u>237</u>

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Metered Water Sales Used to Design Rates

Usage - Ccf/yr

General Metered 8,957

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ADOPTED TAX CALCULATIONS

1. Operating Revenues	\$ 138,180
2. Expenses	102,670
3. Depreciation	5,790
4. Taxes Other Than Income	6,265
5. Interest Expense	17,145
6. Taxable Income for State Tax	6,310
7. State Tax (Minimum)	800
8. Taxable Income for FIT	5,510

(END OF APPENDIX D)

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APPENDIX E

COAST SPRINGS WATER COMPANY, INC.

DISTRIBUTION:
F. L. Cury, Chief
J. S. Sekhon, Supervisor
Art Jarrett, Senior Engineer
Richard Tom, Senior Engineer

PREPARED BY:
Elena Perez
Date: August 13, 1996

Subject: Informal Public Meeting Regarding Advice Letter Rate
Increase Request by Coast Springs Water Company (CSWC).

Held at: Tomasles Town Hall
27150 Shoreline Hwy.
Tomasles CA

Date: July 31, 1996

Time: 7:00 p.m.

Present:

<u>NAME</u>	<u>TITLE</u>	<u>REPRESENTING</u>
Art Jarrett	Senior Engineer	CPUC
Elena Perez	Regulatory Analyst	CPUC
Pam Collette	Office Manager	CSWC
Kandis Coehler	Field Operations	CSWC
John Andrew		DOHS
Gayle Smalley		No. Main Water District

Notice of the meeting was mailed to the ratepayers prior to the meeting date.

The meeting began at about 7:10 p.m. with about fifty customers attending.

The Commission procedure and purpose of the meeting was explained by Art Jarrett. Ms. Collette also made a presentation, explaining the need for the increase.

Prior to the meeting Ms. Collette distributed a hand out showing revenues and expenses and how they had increased and/or decreased from 1993 through 1995 and their 1996 estimated revenues and expenses. This gave the customers the opportunity to question every account and to refute some of the expenses they thought unnecessary such as charging the utility mileage to make bank deposits or why the utility had made improvements to a truck that could no longer be driven by the owner of the utility. They also questioned the increase in employee labor and were satisfied when told that the