

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water Advisory Branch

RESOLUTION NO. W-4140
March 18, 1999

RESOLUTION

(RES. NO. W-4140), THE SEA RANCH WATER COMPANY, INC. (SRWC). ORDER AUTHORIZING AN INCREASE IN RATES PRODUCING ADDITIONAL ANNUAL REVENUE OF \$61,300 OR 15% AND MONTHLY FEES TO FUND REPLACEMENT OF PLANT OF \$128,100 PER YEAR.

SUMMARY

By Draft Advice Letter accepted on November 5, 1998, SRWC seeks an increase in tariff Schedule No. 1, General Metered Service, to recover increased operating costs. SRWC is a nonprofit corporation, therefore, it seeks no earnings. Because of this and the fact that the majority of its plant is donated, it also seeks to impose monthly Plant Replacement Fees to fund the eventual replacement of the contributed plant. For test year 1999, this resolution grants an increase in gross annual revenue of \$61,300 or 15% and authorizes a new tariff schedule imposing Plant Replacement Fees that would produce \$128,100 annually, which are ordered to be placed in an interest bearing account and used only for rebuilding of contributed plant.

BACKGROUND

SRWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$61,300 per year or 15% in 1999. SRWC's request shows 1999 gross revenues of \$408,500 at present rates increasing to \$469,700 at proposed rates.

SRWC's prior owner, Castle & Cooke Homes California, Inc., to meet health and environmental requirements, made extensive improvements in SRWC's plant including building an uncovered 98 million gallon reservoir and a water treatment facility. Later, by D.97-08-019, the Commission authorized the sale of SRWC to The Sea Ranch Association, a nonprofit mutual benefit corporation, of which many of its members are

also customers of SRWC. As a part of the sale, the seller agreed to contribute \$5.1 million in plant and to let \$1.9 million in plant remain as utility funded. The utility funded plant is being recovered through depreciation expense included in rates. Because of its nonprofit status, however, SRWC presently has no means to fund the eventual replacement of its contributed plant. To comply with Section 1365.5 of the Civil Code which requires an association managing a common interest development to maintain reserve funds for repair or replacement of its facilities, SRWC requests \$128,100 annually in Plant Replacement Fees, assessed as a surcharge to customers' bills.

SRWC serves 1,520 customers in the unincorporated coastal community of The Sea Ranch in Sonoma County. SRWC's present rates were authorized by Resolution No. W-3510, dated October 15, 1990.

DISCUSSION

The Water Advisory Branch (Branch) made an independent analysis of SRWC's operations. For Test Year 1999, Appendix A shows SRWC's and the Branch's estimates of the summary of earnings at present, requested, and adopted rates, and shows the differences between SRWC's and the Branch's estimates of revenues and expenses.

To provide accountability of the authorized Plant Replacement Fees, SRWC should be required to place the funds in an interest bearing account and to show the balances in its annual report to the Commission. It should account for the fees as prescribed in the Commission's Uniform System of Accounts. In addition, SRWC should be required to maintain supporting records to identify amounts received, interest income, and work orders for all plant expenditures.

SRWC was informed of the Branch's differing views of revenues and expenses and stated that it accepts the Branch's estimates.

The provision of D.92-03-093 requiring the Branch to recommend the higher of the rates calculated on the basis of a return on rate base or on the basis of an operating ratio is not applicable to SRWC because it is not seeking any earnings.

SRWC is in compliance with all Commission orders and requirements of the Department of Health Services. It has also returned its Year 2000 questionnaire and reports that it is compliant therewith. The Consumer Affairs Branch reports that it has received six informal complaints and inquiries since 1995 which have been resolved to the parties satisfaction.

SRWC's tariffs contain two rate schedules, Schedule No. 1, General Metered Service, and Schedule No. 9, Irrigation Service. The irrigation schedule should be cancelled because there are no longer any customers receiving service under it. A new rate schedule, Schedule R, Plant Replacement Fees, is authorized to be placed into effect by this resolution. At the Branch's recommended rates shown in Appendix B, the monthly bill for a customer with a 5/8 x 3/4-inch meter using the system wide average of five hundred cubic feet (Ccf) would increase from \$12.50 to \$20.00, including the assessment of a Plant Replacement Fee. 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

SRWC mailed a notice of the proposed increase in rates to each customer on November 5, 1998. A second notice, containing its request for Plant Replacement Fees was mailed to each customer on February 11, 1999. One letter expressing concern in the increase in service charges has been received.

The Branch and SRWC conducted a public meeting at The Sea Ranch Association clubhouse on the evening of November 19, 1998, that was attended by approximately 25 customers. Customers were concerned with the policies under which the Commission sets rates and SRWC's need for adequate reserve funds.

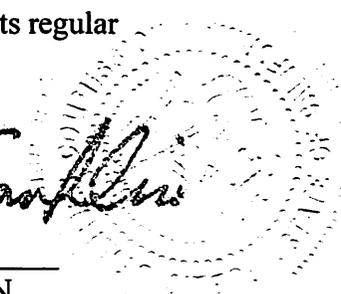
FINDINGS AND CONCLUSIONS

1. The summary of earnings (Appendix A) developed by the Branch is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities used in preparation of the Branch's recommended rates (Appendix D) are reasonable and should be adopted.
4. The institution of Plant Replacement Fees to fund repair and replacement of contributed plant is reasonable.
5. The increase in rates recommended by the Branch is justified and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. The Sea Ranch Water Company is granted authority under Section 454 of the Public Utilities Code to file an advice letter incorporating the summary of earnings and the new and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective Schedule No. 1, General Metered Service, and Schedule No. 9, Irrigation Service. This filing shall comply with General Order No 96-A. The effective date of the new and revised rate schedules shall be five days after the date they are filed.
2. The Sea Ranch Water Company shall deposit all Plant Replacement Fees authorized herein within five days in a separate bank account paying interest, shall treat such fees as Contributions-in-Aid-of-Construction in accordance with D.85-04-076, Uniform System of Accounts for Class B, C, and D Water Utilities and Section 118 of the Internal Revenue Code, and shall report in its annual report to the Commission the amounts received, interest, expenditures, and balance.
3. For plant that is rebuilt or replaced using funds from Plant Replacement Fees, The Sea Ranch Water Company shall maintain work orders, and all necessary supporting records, as prescribed in the Commission's Uniform System of Accounts.
4. The increase in rates recommended by the Branch is justified and the resulting rates are just and reasonable.
5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 18, 1999. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners

APPENDIX A

The Sea Ranch Water Company

SUMMARY OF EARNINGS
 Test Year 1999

	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Adopted Rates</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
<u>Operating Revenue</u>					
Metered Rates	\$408,478	\$469,749	\$408,478	\$466,073	\$468,826
Flat Rates	0	0	0	0	0
Total	\$408,478	\$469,749	\$408,478	\$466,073	\$468,826
<u>Operating Expenses</u>					
Power	30,400	30,400	29,564	29,564	29,564
Employee Labor	88,097	88,097	88,669	88,669	88,669
Materials	24,341	24,341	22,341	22,341	22,341
Contract Work	0	0	9,600	9,600	9,600
Transportation Exp.	6,600	6,600	6,600	6,600	6,600
Other Plant Maintenance	4,000	4,000	2,000	2,000	2,000
Office Salaries	1,450	1,450	1,450	1,450	1,450
Management Salaries	68,321	68,321	68,321	68,321	68,321
Employee Benefits	46,295	46,295	46,295	46,295	46,295
Uncollectibles	250	250	250	250	250
Office Rental	14,252	14,252	14,252	14,252	14,252
Office Supplies & Exp.	10,080	10,080	10,080	10,080	10,080
Professional Services	46,300	46,300	19,088	19,088	19,088
Insurance	49,247	49,247	49,247	49,247	49,247
Regulatory Comm. Exp.	0	0	0	0	0
General Expenses	36,275	36,275	36,275	36,275	36,275
Subtotal	\$425,908	\$425,908	\$404,032	\$404,032	\$404,032
Depreciation Expense	\$62,000	\$62,000	\$47,048	\$47,048	\$47,048
Property Taxes	0	0	2,803	2,803	2,803
Payroll Taxes	0	0	14,143	14,143	14,143
State Income Tax	0	0	800	800	800
Federal Income Tax	0	0	0	0	0
Total Deductions	\$487,908	\$487,908	\$468,826	\$468,826	\$468,826
Net Revenue	(\$79,430)	(\$18,159)	(\$60,347)	(\$2,753)	\$0
Rate Base	\$351,328	\$351,328	\$280,272	\$280,272	\$280,272
Rate of Return	(loss)	(loss)	(loss)	(loss)	0.00%

(End of Appendix A)

APPENDIX B
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Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as The Sea Ranch, and vicinity, located approximately seven miles southeast of Gualala, Sonoma County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
All water, per 100 cubic feet	\$0.36	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$11.50	(I)
For 3/4-inch meter	17.25	
For 1-inch meter	28.75	
For 1-1/2-inch meter	57.50	
For 2-inch meter	90.00	
For 3-inch meter	172.50	
For 4-inch meter	287.50	(I)

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 Rates.

SPECIAL CONDITIONS

1. Any customer resuming service within 12 months after such service was disconnected will be required to pay all quantity rates which would have been billed if service had not been discontinued.

(T)
(T)
(D)
(D)
2. All bills shall be subject to the Plant Replacement Fee as set forth in Schedule No. R.

(N)
(N)
3. All bills shall be subject to the reimbursement fee as set forth in Schedule No. UF.

(D)

APPENDIX B
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Schedule No. R

PLANT REPLACEMENT FEES

APPLICABILITY

Applicable to all customers of the Utility in the territory served.

TERRITORY

This schedule is applicable within the entire territory served by the Utility.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Plant Replacement Fees:	
For 5/8 x 3/4-inch meter	\$ 6.70
For 3/4-inch meter	10.05
For 1-inch meter	16.75
For 1-1/2-inch meter	33.50
For 2-inch meter	53.60
For 3-inch meter	100.50
For 4-inch meter	167.50

SPECIAL CONDITIONS

1. Replacement fees are applicable to metered rate service for the size meter shown and are in addition to charges computed under Schedule No. 1, General Metered Service.
2. Payments made under this schedule are not subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX C

The Sea Ranch Water Company

COMPARISON OF RATES

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

	<u>Present Service Charge</u>	<u>Recommended</u>		
		<u>Service Charge</u>	<u>Replacement Fee</u>	<u>Total</u>
For 5/8 x 3/4-inch meter	\$11.00	\$ 11.50	\$ 6.70	\$ 18.20
For 3/4-inch meter	12.10	17.25	10.05	27.30
For 1-inch meter	16.50	28.75	16.75	45.50
For 1 1/2-inch meter	22.00	57.50	33.50	91.00
For 2-inch meter	29.70	90.00	53.60	143.60
For 3-inch meter	53.50	172.50	100.50	273.00
For 4-inch meter	96.30	287.50	167.50	455.00

Quantity Rates

	<u>Present</u>	<u>Recommended</u>
All water, per 100 cu. ft.	\$0.30	\$0.36

The water bill for a customer with a 5/8 x 3/4-inch meter under present and proposed rates with various amounts of water used per month is shown below.

<u>Water Used, Ccf</u>	<u>Amount of Bill</u>		<u>Amount of Increase</u>	<u>Percent Increase</u>
	<u>Present</u>	<u>Recommended</u>		
0	\$ 11.00	\$ 18.20	\$ 7.20	65.4%
5 (Average)	12.50	20.00	7.50	60.0
10	14.00	21.80	7.80	55.7
15	15.50	23.60	8.10	52.3
20	17.00	25.40	8.40	49.4
30	20.00	29.00	9.00	45.0

(End of Appendix C)

APPENDIX D
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The Sea Ranch Water Company

ADOPTED QUANTITIES
Test Year 1999

1. Purchased electric energy:	
Supplier	Pacific Gas & Electric Company
Tariff Schedule	A-1
Effective Date	8/11/96
Total expense	\$29,564
Composite energy expense	\$0.1538 per kWhr
2. Purchased water	None
3. Ad Valorem Taxes	
Composite Tax Rate	1.0000%
Assessed Value	\$280,272
Total Cost	\$2,803
3. Number of Connections:	
5/8 x 3/4-inch service	1,497
3/4-inch service	4
1-inch service	10
1 1/2 -inch service	5
2-inch service	2
4-inch service	<u>1</u>
Total	1,519
4. Average water sales, per customer, per year	60.18 Ccf
5. DHS Inspection Fees, included in Contract Work	\$ 5,600
Water Testing (Lab. Fees) included in Contract Work	2,000
6. Account Balances as of December 31, 1997:	
Total Plant	\$ 7,166,397
Contributions In Aid of Construction	5,124,653
Advances	35,218
Accumulated Depreciation	1,902,767

APPENDIX D
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The Sea Ranch Water Company

ADOPTED QUANTITIES
Test Year 1999

Income Tax Calculations:

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenue	\$468,826	\$468,826
2.	O & M Expenses	406,835	406,835
3.	Taxes Other Than Income	14,143	14,143
4.	Deprecation Expense	47,048	47,048
5.	Taxable Income for State Tax	800	
6.	State Tax	800	
7.	Taxable Income for Federal Tax		0
8.	Federal Income Tax		0
9.	Total Income Tax		\$ 800

Note: Minimum California Franchise Tax is \$800.

(End of Appendix D)