

WATER/RUT/KKE:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
WATER ADVISORY BRANCH**

**RESOLUTION NO. W4166
SEPTEMBER 2, 1999**

RESOLUTION

**(RES. W-4166) KENWOOD VILLAGE WATER COMPANY
(KVWC). ORDER AUTHORIZING A GENERAL RATE
INCREASE PRODUCING \$34,235 OR 34.9% ADDITIONAL
ANNUAL REVENUE.**

SUMMARY

By Draft Advice Letter, accepted on March 5, 1999, KVWC seeks revision of tariff Schedule Nos. 1, Metered Service, and 2, Cost to Serve Agreement, to increase its rates to recover an increase in operating costs and to provide an adequate rate of return. This resolution grants an increase in gross annual revenues of \$34,235 or a system wide increase of 34.9% for test year 1999. The increase will provide a 13.50% rate of return on rate base for the test year 1999.

BACKGROUND

KVWC requested 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 to produce additional revenues of \$34,460 or 35.2% in 1999. The purpose of this request is to recover increased operating expenses and to provide an adequate rate of return. KVWC's request shows that in test year 1999, gross revenues of \$98,000 at present rates would increase to approximately \$132,460 at proposed rates. KVWC serves about 295 metered customers in the unincorporated area known as Kenwood Village, immediately north of Kenwood in Sonoma County.

The present rates were established on July 19, 1999, pursuant to a Consumer Price Index increase of \$1,565 or 1.7%. The last general rate increase became effective on July 20, 1992, pursuant to Res. W-3653, which authorized an increase of \$20,500 or 41.3% and a rate of return of 14.4% in 1992.

DISCUSSION

The Water Advisory Branch (Branch) made an independent analysis of KVWC's summary of earnings and issued its report in June 1999. Appendix A shows KVWC's and the Branch's estimates of the summaries of earnings at present, requested, and adopted rates for test year 1999. Appendix A also shows differences between KVWC's and the Branch's estimates in operating expenses and rate base.

KVWC was informed of the Branch's differing views of expenses and rate base and stated that it disagreed with the Branch's findings. Following discussions between KVWC and

the Branch and KVWC's appeal to the Branch Chief, both the Branch and KVWC agreed to the summary of earnings as shown in the column headed "Adopted Rates" in Appendix A.

In July 1997, KVWC met with Water Division representatives to discuss the Treehaven project. This project which is required to connect a 200,000-gallon storage tank to the distribution system, was approved and is incorporated in this resolution as an authorized expense to be recovered through the advice letter process. Branch recommends that KVWC be authorized to file an advice letter to recover these expenses after the project has been completed and is in full operation.

KVWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 14.25%; however, due to errors in its calculations, the actual return on rate base was 16.48%. The summary of earnings in Appendix A shows a rate of return of 13.50% at the Branch's recommended rates. This is higher than the rate of return first proposed by staff (13%), but is justified on the basis of financial risk. Kenwood is undertaking a substantial infrastructure replacement project. Estimated costs are \$50,000 or 25% of rate base. The higher return is justified until the project is complete.

KVWC's filed tariffs currently contain two schedules: No. 1, Metered Service, and No. 2, Cost to Serve Agreement. Branch reviewed KVWC's tariff schedules and found that the following need to be updated: Form 2 and Rules 5 and 10.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a 5/8 x 3/4-inch metered residential customer using the system average of 19.2 hundred cubic feet of water would increase from \$26.20 to \$35.73 or 36.36%. 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 April 1, 1999. The Branch received five letters complaining of the rate increase. The Commission's Consumer Services Division received 16 complaints or inquiries between the last rate case filing in 1992 and May 1999.

On April 21, 1999, the Branch held an informal public meeting in the Kenwood Fire Station in Kenwood. The Branch's representative explained the Commission rate-setting procedures and the utility's representative explained the need for the rate increase. About 15 customers attended. Most of the questions were general in nature; specific questions dealt with the meter service charge and the number of water sources. The Department of Health Services representative indicated that the system had been inspected in 1997 and passed all water quality tests.

There are no outstanding Commission orders requiring system improvements. KVWC has been filing annual reports as required.

FINDINGS AND CONCLUSIONS

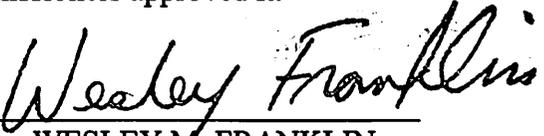
- a) The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
- b) The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
- c) The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
- d) The rate increase proposed by the Branch is justified, the resulting rates are just and reasonable.
- e) KVWC should be ordered to update its Form 2 and Rules 5 and 10.
- f) KVWC should be authorized to file an advice letter to recover the costs of the Treehaven project after it has been installed and is in full operation.

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 schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedules Nos.1, Metered Service, and 2, Cost to Serve Agreement. 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. Within 60 days after the effective date of this resolution, Kenwood Village Water Company shall file an advice letter updating its Form 2 and Rules 5 and 10.
- 3. Kenwood Village Water Company is authorized to file an advice letter to recover the costs of the Treehaven project after it has been installed and is in full operation.

4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on September 2, 1999. The following commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President

HENRY M. DUQUE

JOSIAH L. NEEPER

JOEL Z. HYATT

CARL W. WOOD

Commissioners

Appendix A Summary of Earnings

Kenwood Village Water Company
 Test Year 1999

Item	Utility Estimated		Branch Estimated		
	Present	Requested	Present	Requested	Adopted
		14.25% ROR			13.50%ROR
Operating Revenue					
Metered	98,000	132,460	98,000	132,460	132,235
Total Revenue	98,000	132,460	98,000	132,460	132,235
Operating Expenses					
Purchased water	2,200	2,200	2,200	2,200	2,200
Power	10,600	10,600	10,600	10,600	10,600
Other Vol. Related exp.	400	400	400	400	400
Employee Labor	480	480	480	480	480
Materials	1,550	1,550	1,550	1,550	1,550
Contract Work	11,207	11,207	11,207	11,207	11,207
Water Testing	2,300	2,300	2,300	2,300	2,300
Transportation Expense	850	850	850	850	850
Other Plant Maint.	450	450	450	450	450
Office Salaries	4,800	4,800	4,800	4,800	4,800
Management Salaries	22,509	22,509	22,509	22,509	22,509
Employee Pensions&Benefits	6,302	6,302	6,302	6,302	6,302
Uncollectible Expense	300	300	300	300	300
Ofc. Service and Rentals	2,400	2,400	2,400	2,400	2,400
Ofc Supplies and Exp.	4,530	4,530	4,530	4,530	4,530
Professional Services	2,880	2,880	2,880	2,880	2,880
Insurance	3,000	3,000	3,000	3,000	3,000
Regulatory Expense	0	0	0	0	0
General Expense	900	900	900	900	900
Subtotal	77,658	77,658	77,658	77,658	77,658
Depreciation Expense	9,283	9,283	9,283	9,283	9,283
Taxes other than income tax	10,000	10,000	10,000	10,000	10,000
Income Taxes	1,378	6,853	238	8,140	8,140
Total Deductions	98,319	103,794	97,179	105,081	105,081
Net Revenue	(319)	28,666	821	27,379	27,154
Rate Base					
Average Plant	404,001	404,001	404,001	404,001	404,001
Average Depr. Reserve	112,541	112,541	112,541	112,541	112,541
Net Plant	291,460	291,460	291,460	291,460	291,460
Less: Advances	-16,944	-16,944	-16,944	-16,944	-16,944
Less: Contributions	-83,102	-83,102	-83,102	-83,102	-83,102
Plus: Working Cash	7,330	7,330	7,330	7,330	7,330
Plus: Material & Supplies	2,466	2,466	2,466	2,466	2,466
Rate Base	201,210	201,210	201,210	201,210	201,210
ROR = Net Rev/Rate Base	-0.16%	14.25%	0.41%	13.61%	13.50%

Appendix B Rates

Kenwood Village Water Company Test Year 1999

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.

RATES

Quantity Rates:

All Water, per 100 cu. ft. \$0.879 (1)

Service Charges:

	Per Meter		Per Meter Per Month
	<u>Per Month</u>		<u>SDWBA Surcharge</u>
For 5/8 x 3/4-inch meter	\$ 18.85	(1)	10.22
For 3/4-inch meter	20.80	1	15.33
For 1-inch meter	28.27	1	25.55
For 1.5-inch meter	37.85	1	51.09
For 2-inch meter	51.03	1	81.75
For 3-inch meter	282.55	1	153.28
For 4-inch meter	470.90	(1)	255.46

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 Safe Drinking Water Bond Act (SDWBA) 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 Resolution F-636.
2. All bills are subject to the reimbursement fee as set forth in Schedule No. UF.

(D)

Appendix B continued

Kenwood Village Water Company
Test Year 1999

Schedule No. 2
Cost to Serve Agreement

APPLICABILITY

Kenwood Inn

TERRITORY

10400 Sonoma Highway, Kenwood California 95452, Sonoma County.

RATES

Quantity Rates:

All Water, per 100 cu. ft..... \$1.35 (I)

Service Charges:

Per Meter
Per Month

For 4-inch meter..... \$61.50 (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 Rate.

SPECIAL CONDITIONS

(D)

1. All bills are subject to the reimbursement fee as set forth in Schedule No. UF.

Appendix C Comparison of Rates

Kenwood Village Water Company
Test Year 1999

	Per Service Connection Per Year			
	Present Rates \$	Recommended Rates \$	Percent Change %	
METERED				
Service Charge:				
5/8 x 3/4-inch meter	133.08	226.20	69.97	
3/4 - inch	146.88	249.60	69.93	
1-inch meter	199.56	339.24	69.99	
1 1/2 - inch	267.24	454.20	69.96	
2-inch meter	360.24	612.36	69.99	
3-inch meter	1,994.52	3,390.60	70.00	
4-inch meter	3,324.12	5,650.80	69.99	
QUANTITY				
All water, per 100 cu.ft.	0.787	0.879	11.69	
<i>A monthly comparison bill does not include the SDWBA surcharge for a customer with a 5/8 x 3/4 -inch meter is shown below:</i>				
Usage in CCF (100 Cu. Ft.)	Present Bill \$	Recommended Bill \$	Amount Increase \$	Increase %
0	11.09	18.85	7.76	69.97
5	15.03	23.25	8.22	54.71
10	18.96	27.64	8.68	45.78
15	22.90	32.04	9.14	39.92
19.2 average	26.20	35.73	9.53	36.36
25	30.77	40.83	10.06	32.70
30	34.70	45.22	10.52	30.32

Appendix D

Adopted Quantities

Kenwood Village Water Company

Test Year 1999

Taxes

Federal Tax Rate.....15%
State Tax Rate.....8.84%

Ad Valorem Taxes.....\$2,059
Tax Rate.....1.000%
Assessed Value.....\$184,730

Expenses

Purchased power.....\$10,600
Pacific Gas & Electric
Rate Schedule.....A - 10
Effective Date of Schedule.....01/01/99
kWh** Used Total.....52,500
**Rates for per kWh usage varies and is based on the weighted average costs for purchase through the Power Exchange. This service is subject to competition.
Customer Charge.....482

Payroll

Management Salary.....\$22,509
Field labor.....\$11,207
Office Salary.....\$4,800
Total Payroll.....\$38,516
Payroll taxes.....\$2,476

Water Testing.....\$2,300

Adopted Quantities (continued)

Kenwood Village Water Company

Test Year 1999

Service Connections

Metered Rate:

5/8 x 3/4-inch	284
1-inch	6
2-inch	5
Total Connections	295

Metered water sales used to design residential metered rates.....66,405 Ccf

Metered water sales used to design Kenwood Inn metered rates.....2,980 Ccf

Adopted Tax Calculations

Kenwood Village Water Company

1999 Test Year

Line	Item	State Tax	Federal Tax
		\$\$	\$\$
1.	Operating Revenues	132,235	132,235
2.	Expenses	77,658	77,658
3.	Taxes other than Income	10,000	10,000
4.	Depreciation Expense	9,283	9,283
5.	Interest	none	none
6.	Taxable Income for State Tax	36,155	
7.	State Tax (at 8.84%)	3,196	
8.	Taxable Income for FIT		32,959
9.	Federal Income Tax (at 15%)		4,944
10.	Total Income Taxes		8,140