

PROPOSED RESOLUTION

Resolution W-5028
DWA

AGENDA ID #13871

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5028
May 7, 2015

RESOLUTION

**(RES. W-5028) GEYSERVILLE WATER WORKS. ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$148,265, OR 89.66%,
FOR TEST YEAR 2015.**

SUMMARY

Geyserville Water Works filed Advice Letter 39 on October 16, 2014 requesting authority to increase its rates for water service to produce additional revenues above current revenues to recover water plant additions for Test Year 2015.

This Resolution grants Geyserville Water Works a general rate increase of \$148,265, or 89.66%, and a rate of return of 10.80% for Test Year 2015.

BACKGROUND

Geyserville Water Works (GWW) is a Class D water utility that provides water service in Geyserville, Sonoma County. The service territory is located along Highway 101 and is primarily residential with a limited commercial area. GWW has 315 active service connections; 279 connections are metered, while the remaining 36 connections receive flat rate service. GWW maintains three wells, sourced by the Russian River, which pump water into two storage tanks with a capacity of 75,000 and 125,000 gallons. According to the State Water Resources Control Board's (SWRCB) Division of Drinking Water (DDW), GWW's water quality is satisfactory.

GWW filed Advice Letter (AL) 39 on October 16, 2014 requesting authority, under Rule 7.6.2 of the Commission's General Order (G.O.) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code, to increase its rates for water service to produce additional annual revenues of \$100,151, or 60.57%, above current revenues to recover water plant additions and earn a 12.08% return on investment for Test Year (TY) 2015.

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GWW's last general rate case (GRC) was granted on January 8, 2004, pursuant to Resolution (Res.) W-4451, which authorized a general rate increase of \$61,981, or 58.63%, and a rate of return (ROR) of 13.40% for TY 2003. The present rates became effective on January 26, 2004, pursuant to AL 37, which was filed in compliance with Res. W-4451.

NOTICE AND PROTESTS

AL 39 was filed in accordance with G.O. 96-B on October 16, 2014. Notice of the public meeting and proposed rate increase was provided to GWW's customers on October 20, 2014. The Division of Water and Audits (Division), in cooperation with GWW, conducted a public meeting on December 3, 2014 at 6:00 PM at the Geyserville Fire Department. The meeting concluded at 6:17 PM. There were no attendees. No protests regarding the proposed rate increase were received.

DISCUSSION

In reviewing GWW's rate increase request, the Division conducted an independent analysis of the utility's operations. Appendix A of this resolution shows GWW's and the Division's estimates of operating revenues, expenses, and rate base. Appendix A also shows differences in GWW's and the Division's estimates in operating revenues, expenses, and rate base which are discussed below. GWW was informed of the Division's differing views of revenues, expenses, and rate base and agreed with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B.

Expenses

The Division reviewed GWW's estimated 2015 operating expenses, including purchased power, employee labor, materials, plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy and included the amounts that were verifiable and deemed reasonable and prudent for ratemaking purposes.

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Rate Base

The Division reviewed GWW's plant accounts from the last authorized TY (2003) through TY 2015. GWW has added new additions to plant since its last authorized general rate increase. The Division reviewed the invoices for the new additions from 2003 through 2014, and verified the additions were made. GWW proposed \$25,000 in pipeline replacement projects for TY 2015. Based on GWW's recorded plant additions, the Division determined that GWW will complete the pipeline replacement projects in 2015, and therefore included these projects in rate base. GWW has historically used a composite depreciation rate of 2.6%. The Division finds this depreciation rate reasonable.

Rate of Return

GWW requested a 12.08% ROR for TY 2015. The Division's March 21, 2014 Memorandum provides guidance for determining an appropriate ROR for utilities by providing a range of ROR's centered on the average rate allowed by the Commission. The Memorandum recommended a ROR between 10.80% and 11.80% for Class D water utilities.

Revenues and Rate Design

Decision (D.) 92-03-093, effective April 30, 1992, allows Class D utilities to recover up to 100% of fixed costs in their readiness to serve charge. The Division has recommended that 75% of GWW's fixed costs be recovered through the service charge to promote water conservation and thereby delay the development of additional water supplies and storage. The service charge rates shown in Appendix B recover 75% of the utility's fixed cost.

In D. 92-03-093, the Commission adopted the operating ratio method of ratemaking as an alternative to the ROR method on rate base for Class C and D utilities. The operating ratio, or rate of margin, method calculates a margin over operating and maintenance expenses, rather than focusing on return on net investment. Ordering Paragraph 8 of D.92-03-092 states:

Division is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission the rate method that produces the higher results.

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GWW is a Class D water utility. The Division conducted an analysis of the financial market changes with the last year and the high operational risks faced by Class D water companies and determined that the appropriate range for ROR is 10.80% - 11.80% and a Return on Margin (ROM) of 21.34%.

Using the rate of margin method with a ROM of 21.34%, the Division's estimate of GWW's revenue requirement is \$210,313. Using the ROR of 10.80%, the Division estimates a revenue requirement of \$313,624. The Division recommends the ROR method since it produces the higher revenue requirement. Although GWW is a well-run utility that made necessary plant additions and repairs, the Division recommends the low point of the ROR range, or 10.80%, for return on rate base to minimize the rate impact for customers compared to recommending a higher ROR. The revenues granted herein are higher than that requested by GWW because the utility's initial tax calculations were incorrect, the utility did not include working cash, and the utility miscalculated its depreciation expenses.

GWW's current rate structure consists of three schedules: Schedule No. 1, General Metered Service, Schedule No. 2, General Flat Rate Service, and Schedule No. F, Facilities Fees. At the Division's recommended rates shown in Appendix B, the monthly bill for a metered residential customer using an average 16 Ccf (one Ccf equals 100 cubic feet) of water per month with a 5/8 x 3/4-inch meter will increase by \$30.11, or 86.5%, from \$34.80 to \$64.92. A flat rate customer's bill per month will increase by \$65.50, or 126.69%, from \$51.70 to \$117.20. 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.

COMPLIANCE & SAFETY

In 2012, SWRCB, DDW inspected GWW's system, including its wells, storage tanks, emergency notification plan, and water treatment levels. SWRCB, DDW concluded that the overall condition of GWW's system was adequate and its operation and maintenance are under competent supervision.

GWW has no outstanding compliance orders and the utility has been filing annual reports as required. GWW meets all applicable drinking water quality standards as required by the SWRCB, DDW.

Safety for water utilities considers a number of factors such as water quality, system design, operation and maintenance, and service, including adequate source supply and

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capacity to meet maximum day demands and for public fire protection. G.O. 103-A establishes the rules for water service, minimum standards for operation, maintenance, design and construction for the regulated water utilities. One of the Commission's highest safety priorities is to ensure that water utilities, serving water for human consumption, provide water that is not harmful or dangerous to health. GWW is in compliance with SWRCB, DDW's water quality standards for safe drinking water.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day public review period.

FINDINGS

1. Geyserville Water Works agrees with the Division of Water and Audits' recommended Summary of Earnings (Appendix A).
2. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits is reasonable and should be adopted.
3. Geyserville Water Works agrees with the Division of Water and Audits' recommended rate design (Appendix B).
4. The rates (Appendix B) recommended by the Division of Water and Audits are reasonable and should be adopted.
5. The quantities (Appendix D) used to develop the recommendations of the Division of Water and Audits are reasonable and should be adopted.
6. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
7. This is an uncontested matter subject to the public notice comment exclusion provided in Public Utilities Code Section 311(g)(3).

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THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Geyserville Water Works to file a supplemental advice letter with the revised rate schedules attached to this Resolution as Appendix B, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service and Schedule No. 2, General Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 7, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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APPENDIX A GEYSERVILLE WATER WORKS Summary of Earnings - Test Year 2015

		Utility Estimated Rates		Branch Estimated Rates		Recommended
		Present	Requested	Present	Requested	Rates
<u>Operating Revenue</u>						
Flat		\$20,794	\$21,000	\$20,794	\$21,000	\$47,044
Metered		\$144,565	\$244,510	\$144,565	\$244,510	\$266,581
Total Revenue		\$165,359	\$265,510	\$165,359	\$265,510	\$313,624
<u>Operating Expenses</u>						
615	Power	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500
618	Other Volume Related Expenses	\$6,500	\$6,500	\$5,040	\$5,040	\$5,040
630	Employee Labor	\$0	\$0	\$0	\$0	\$0
640	Materials	\$0	\$0	\$0	\$0	\$0
650	Contract Work - General	\$19,000	\$19,000	\$19,000	\$19,000	\$19,000
	Water Testing	\$0	\$0	\$0	\$0	\$0
660	Transportation Expenses	\$6,000	\$6,000	\$6,170	\$6,170	\$6,170
664	Other Plant Maintenance	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200
670	Office Salaries	\$30,000	\$30,000	\$30,851	\$30,851	\$30,851
671	Management Salaries	\$33,000	\$33,000	\$33,936	\$33,936	\$33,936
674	Employee Pensions & Benefits	\$0	\$0	\$0	\$0	\$0
676	Uncollectibles Expense	\$650	\$650	\$650	\$650	\$650
678	Office Services & Rentals	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
681	Office Supplies & Expenses	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500
682	Professional Services	\$0	\$0	\$0	\$0	\$0
684	Insurance	\$4,000	\$4,000	\$4,191	\$4,191	\$4,191
688	Regulatory Commission Expense	\$0	\$0	\$0	\$0	\$0
689	General Expenses	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Subtotal		\$128,350	\$128,350	\$129,038	\$129,038	\$129,038
Depreciation		\$24,222	\$24,222	\$36,535	\$36,535	\$36,535
State Tax		\$800	\$800	\$800	\$8,573	\$12,826
Federal Income Tax		\$0	\$2,893	\$0	\$18,307	\$34,833
Taxes Other than Income Taxes		\$2,846	\$2,846	\$2,961	\$2,961	\$2,961
Total Taxes:		\$3,646	\$6,539	\$3,761	\$29,841	\$50,620
Total Deductions		\$156,218	\$159,111	\$169,334	\$195,414	\$216,193
Net Revenue		\$9,141	\$106,399	-\$3,975	\$70,096	\$97,431
<u>RATE BASE</u>						
Average Plant		\$1,762,486	\$1,762,486	\$1,762,486	\$1,762,486	\$1,762,486
Average Accumulated Depreciation		\$559,146	\$559,146	\$559,146	\$559,146	\$559,146
Net Plant		\$1,203,340	\$1,203,340	\$1,203,340	\$1,203,340	\$1,203,340
Less Advances		\$0	\$0	\$0	\$0	\$0
Contributions		\$322,501	\$322,501	\$322,501	\$322,501	\$322,501
Plus Working Cash		\$0	\$0	\$20,465	\$20,465	\$20,465
Materials & Supplies		\$0	\$0	\$1,000	\$1,000	\$1,000
TOTAL RATE BASE		\$880,839	\$880,839	\$902,303	\$902,303	\$902,303
Rate of Return		1.04%	12.08%	-0.44%	7.77%	10.80%

END OF APPENDIX A

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APPENDIX B

GEYSERVILLE WATER WORKS Schedule No. 1 General Metered Service

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Geyserville and vicinity, Sonoma County.

RATES

Quantity Rate:

All water, per 100 cu. ft.	\$2.201	(I)
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Service Charge:

	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$29.70	
For 3/4-inch meter	\$44.60	
For 1-inch meter	\$74.30	
For 1-1/2-inch meter	\$148.60	
For 2-inch meter	\$237.70	
For 3-inch meter	\$445.70	
For 4-inch meter	\$742.80	

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the water used computed at the Quantity Rates.

SPECIAL CONDITIONS

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

(cont.)

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APPENDIX B (cont.)

GEYSERVILLE WATER WORKS Schedule No. 2 General Flat Rate Service

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Geyserville and vicinity, Sonoma County.

RATES

	<u>Per Service Connection Per Month</u>	
1. For a single family residential unit	\$117.20	(I)
a. For each additional single family unit on the same premises and served from the same service connection	\$87.96	
2. For commercial establishments	\$93.74	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one-inch in diameter.
2. For service covered by the above classifications, if the utility or customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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APPENDIX C

GEYSERVILLE WATER WORKS Comparison of Rates – Test Year 2015

Per Service Connection Per Month

METERED RATE SERVICE		Present Rates	Adopted Rates	Percent Increase
Quantity Charge	All water, per 100 cu. ft.	\$0.919	\$2.201	139.5%
Service Charge	For 5/8 x 3/4-inch meter	\$20.10	\$29.70	48%
	For 3/4-inch meter	\$30.20	\$44.60	48%
	For 1-inch meter	\$50.40	\$74.30	48%
	For 1-1/2-inch meter	\$100.70	\$148.60	48%
	For 2-inch meter	\$161.20	\$237.70	48%
	For 3-inch meter	\$302.20	\$445.70	48%
	For 4-inch meter	\$503.60	\$742.80	48%
FLAT RATE SERVICE		Present Rates	Adopted Rates	Percent Increase
	Single Family Residential Unit	\$51.70	\$117.20	127%
	Additional	\$38.80	\$87.96	127%
	Commercial Establishments	\$41.35	\$93.74	127%

MONTHLY BILL COMPARISON

Usage 100 cu. ft.	Present Rates	Adopted Rates	Amount Increase	Percent Increase
0	\$20.10	29.70	9.60	48%
5	\$24.70	40.71	16.01	65%
10	\$29.29	51.71	22.42	77%
16 (avg.)	\$32.97	64.92	30.11	87%
30	\$47.67	95.73	48.06	101%
40	\$56.86	117.74	60.88	107%

END APPENDIX C

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APPENDIX D

GEYSERVILLE WATER WORKS Adopted Quantities – Test Year 2015

1.	Purchased Power (Total Cost)	\$12,500
2.	Water Sales in 1,000 of gallons (Ccf)	40,194 (53,735)
3.	Property Taxes	\$2,961
4.	Number of Service Connections	320

<u>Meter Size</u>	<u>Connections</u>
5/8 x 3/4-inch	244
3/4-inch	1
1-inch	23
1 1/2-inch	5
2-inch	11
3-inch	0
4-inch	0
	Subtotal: 284
Single Family Residences	24
Additional SFR	3
Commercial Establishments	9
	Subtotal: 36

5.	Tax Calculation	<u>State Tax</u>	<u>Federal Tax</u>
	Operating Revenue	\$313,624	\$313,624
	Expenses	\$129,038	\$129,038
	Taxes Other Than Income	\$2,961	\$2,961
	Depreciation	\$36,535	\$36,535
	Interest Expense	\$0	\$0
	State Taxable Income	\$145,090	
	State Tax (@ 8.84% or \$800 min)	\$12,826	
	Federal Taxable Income		\$132,264
	Federal Taxable Income (@15%)		\$7,500
	Federal Taxable Income (@25%)		\$6,250
	Federal Taxable Income (@34%)		\$8,500
	Federal Taxable Income (@39%)		\$12,583
	State Tax	\$12,826	
	Federal Tax	\$34,833	
	Total Taxes	\$47,659	

END APPENDIX D

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5028 on all parties in these filings or their attorneys as shown on the attached lists.

Dated April 27, 2015, at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

GEYSERVILLE WATER WORKS

ADVICE LETTER NO. 39 SERVICE LIST

Gill Creek Mutual Water CO.,
P.O. Box 655
Geyserville, CA 95441

Sonoma County Water Agency
404 Aviation Blvd.
Santa Rosa, CA 95403

Tony Bugica
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