

WATER/FLC/SNR/PTL/LTR/jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4622

November 9, 2006

R E S O L U T I O N

**(RES. W-4622), RIVER ISLAND WATER COMPANY (RIVER ISLAND). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$72,190, OR 51.6%, IN 2007.**

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SUMMARY

By draft advice letter filed on May 15, 2006, and supplement filed on August 7, 2006, River Island seeks an increase of \$72,190, or 51.6%, in its rates for water service to recover increased operating expenses and provide an adequate return on its plant investment.

This resolution grants an increase in gross annual revenues of \$72,190, or 51.6%, for Test Year 2007, providing a rate of return of 13.25%.

This resolution also orders River Island to establish a revenue memorandum account to track any over-collection or under-collection and to return for a re-evaluation of revenues and rate design in one year.

BACKGROUND

River Island is a Class D water utility and is a subsidiary of Montgomery Drilling Company, a privately-owned California Corporation. River Island serves approximately 300 metered water customers in its service area in and adjacent to the River Island Golf Course, approximately 4 miles south of Springville, Tulare County. The customers are mainly full-time residents and are a mixture of retired and working individuals. The lot sizes for customers range from 5,000 sq. ft. to 3 acres.

River Island's water supply comes from 13 groundwater wells and there are approximately 400,000 gallons of storage facilities. All water mains are either 8- or 10-inch PVC. While the system was placed in service in the mid to late 1960's the majority of the facilities have been replaced and are now no older than 10 years. Pressure is maintained throughout the system by the elevated above-ground steel storage tanks.

Water is treated with chlorine and there have been issues with nitrate levels. The Department of Health Services (DHS) is aware of the problems and continues to monitor the situation closely. River Island is in the process of filing an application for a loan from the DHS for offsetting the cost of developing new water sources. River Island is working on completing several long-range plans for system improvements and will submit them at the time of the next general rate increase case (GRC).

On May 15, 2006, River Island requested assistance in filing a GRC under the Water Division's (Division) Outreach GRC Program. Division staff worked with River Island to determine the appropriate expenses, revenues, and rate components. All aspects of the GRC were finalized on August 7. River Island was notified of the results, instructed to notice customers, and to hold a public meeting. River Island was also informed of the expedited general rate procedure, as outlined in Resolution (Res.) W-4603.

The GRC which was prepared for River Island resulted in a \$72,190, or 51.6%, increase in rates. River Island specifically requested an inverted block rate structure for rates as opposed to a single block rate structure. The request was based upon the need to encourage conservation, thus reducing the need to seek additional water sources for meeting increasing demand. Such request was also in line with the Commission's Water Action Plan. The Division worked diligently with River Island to construct an inverted block rate design.

On August 24, 2006, River Island filed Advice Letter No. 34 requesting authority to implement a new rate schedule for irrigation services. Because this is a new service offering, there are no historical sales by which to accurately set rates, and this filing was filed after the GRC had been completed, the revenues generated by this new schedule will not be addressed in this GRC. Instead, River Island will be allowed to implement the new rate schedule and will be required to return for a re-evaluation of the rate and revenue generated by this new rate schedule in one year. Rates can then be re-evaluated and revenue can be adjusted accordingly.

The present rates became effective on November 16, 1999, as a result of a Consumer Price Index-Urban (CPI-U) increase pursuant to D.92-03-093, which produced an increase of \$937, or 1.6%, in additional annual revenue. The last GRC was granted on April 6, 1994, pursuant to Res. W-3841, which authorized an increase in gross annual revenues of \$21,394, or 60.6%.

### **NOTICE, PROTESTS, AND PUBLIC MEETING**

A notice of the proposed general rate increase was mailed to each customer on August 17, 2006. The Division received five comment letters regarding the proposed rate

increase. River Island has responded to the letters. Most all of the letters indicated concern over the water supplies for the area and concern over the increasing block rate structure. As indicated by River Island in the responses, there is an on-going requirement for any new development to provide additional water sources for the development, thus minimizing the impact on existing customers.

From June 6, 2005 to June 6, 2006, the Consumer Affairs Branch of the Consumer Service and Information Division received no complaints regarding River Island.

An informal meeting, in the service area, was conducted on September 19, 2006. The meeting commenced at 6:00 p.m. and adjourned at 7:10 p.m., with approximately 45 individuals attending. The Division representative explained the Commission rate setting procedures as well as the purpose of the meeting. River Island's representative provided justification for the request. The balance of the meeting consisted of comments, questions, and discussions amongst the participants.

## **DISCUSSION**

The Division's Outreach GRC Program is available to all Class D water utilities. Under this program, it is the Division, not the utility, who is responsible for developing a completed summary of earnings, revenue requirement, and rate design<sup>1</sup>. The utility works with the Division by providing the financial information necessary for such development.

In addition, the Commission considered a standardized and streamlined regulatory review for small water companies (Class C & D) in lieu of a typical rate case. In its Res. W-4603 the Commission was to consider, on a case-by-case basis, changes to the standard rate case plan that would have the effect of streamlining the process and allow the case to move forward in a more expeditious manner.

The Division was able to combine both the outreach and expedited GRC programs in River Island's case. However, because of the rate design request, additional time was required for rate development. The Division did require River Island to conduct a public meeting to be held to solicit customer comments.

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<sup>1</sup> This process was to lighten the burden for Class D water utilities and to minimize rate case expenses recovered in rates. It was envisioned that this process would eliminate unnecessary time-consuming parts of the staff investigation that would normally occur in a typical rate case.

In developing the expenses and revenues, the Division utilized River Island's annual reports as well as historical water sales. The rate design was based upon 43.67% of fixed costs being recovered in the service charge<sup>2</sup>. This allowed for the overall increase in rates for an average bill for both residential and commercial customer to be slightly less than the total annual revenue increase<sup>3</sup>.

While an inverted block rate structure has been utilized for rates, there is an uncertainty of the revenues to be generated. Because of this uncertainty, River Island will be required establish a revenue memorandum account to track any over-collection or under-collection, and also to file a GRC in one year so that revenue and rates can be adjusted accordingly. This will protect both River Island and its customers.

The Division made an independent analysis of River Island's summary of earnings. Appendix A shows estimates of the summary of earnings at present, requested, and recommended rates. Appendix B includes the proposed tariff sheet, and Appendix C is the comparison of rates.

### COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. A review of River Island's tariff sheets has determined that the following needs to be updated: Title Page, Preliminary Statement; Rules Nos. 3, 5, 7, 9, 10, 20, & 21, Forms Nos. 2 & 3, and Schedule No. LC.

### COMMENTS

This is an uncontested matter in which this resolution grants the relief requested. Accordingly, pursuant to the Public Utilities Code §311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

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<sup>2</sup> For Class D water utilities, the standard recovery is 100% of fixed cost in the service charge. Fixed cost revenue requirement is defined as the gross revenues at proposed rates minus the quantity dependent expenses (purchased power, purchased water, other volume related expenses, income taxes, franchise fees, and uncollectibles).

<sup>3</sup> The requested increase in annual revenues is 51.6%. The average increase for a residential customer is 48.3%. The average increase for a commercial customer is 47.5%. The remaining revenues will come from usage in the second block (Appendix C).

**FINDINGS**

1. The summary of earnings (Appendix A) developed by the Division is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. River Island's request for an inverted block rate structure is reasonable and should be granted with a re-evaluation in one year from the effective date of this resolution.
4. River Island shall track its revenues in a revenue memorandum account.
5. River Island's request for a new irrigation rate schedule will be handled separately from the current rate request and revenue generated from this new schedule will be taken into consideration at the one year re-evaluation period.
6. River Island should complete the long-range plans for system improvements and will need to submit them at the one year re-evaluation period.
7. River Island should update the following tariff sheets in its tariff book: Title Page, Preliminary Statement; Rules Nos. 3, 5, 7, 9, 10, 20, & 21, Forms Nos. 2 & 3, and Schedule No. LC.
8. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g) (2).

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to River Island to file an advice letter incorporating the Summary of Earnings and the revised rate schedule attached to this resolution as Appendices A and B, and concurrently to cancel its presently effective rate Schedule No. 1, General Metered Service. The effective date of the revised schedule shall be no less than five days after the date of the filing.
2. River Island is authorized to increase its annual revenues by \$72,190 or 51.6%, based on reasonable rates for 2007.
3. River Island is ordered to track its revenues in a revenue memorandum account.
4. River Island is ordered to file a general rate case in one year from the effective date of this resolution. A re-evaluation of revenues and rates will be conducted at that time.
5. River Island shall complete the long-range plans for system improvements and shall submit them at the one year re-evaluation period.

6. River Island shall update the following tariff sheets in its tariff book: Title Page, Preliminary Statement; Rules Nos. 3, 5, 7, 9, 10, 20, & 21, Forms Nos. 2 & 3, and Schedule No. LC.

7. 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 November 9, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

**Appendix A**  
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 River Island Water Co.  
 Summary of Earnings – Test Year 2007

Acct. No.		Utility Proposed		Staff Proposed		Recommended Rates
		Present Rates	Proposed Rates	Present Rates	Proposed Rates	
	<b>OPERATING REVENUES</b>					
460	Unmetered Water Revenues	0	0	0	0	0
462	Fire Protection Revenues	0	0	0	0	0
465	Irrigation Revenues	0	0	0	0	0
470	Metered Water Revenues	136,824	209,014	136,824	209,014	209,014
480	Other Water Revenues	3,167	3,167	3,167	3,167	3,167
	<b>TOTAL REVENUES</b>	<b>139,991</b>	<b>212,181</b>	<b>139,991</b>	<b>212,181</b>	<b>212,181</b>
	<b>OPERATING EXPENSES</b>					
610	Purchased Water	0	0	0	0	0
615	Purchased Power	43,688	43,688	43,688	43,688	43,688
618	Other Volume Related Expenses	1,341	1,341	1,341	1,341	1,341
630	Employee Labor	0	0	0	0	0
640	Materials	538	538	538	538	538
650	Contract Work	4,448	4,448	4,448	4,448	4,448
	Contract Work - Water Testing	13,647	13,647	13,647	13,647	13,647
660	Transportation Expenses	3,862	3,862	3,862	3,862	3,862
664	Other Plant Maintenance Expense	5,051	5,051	5,051	5,051	5,051
670	Office Salaries	14,935	14,935	14,935	14,935	14,935
671	Management Salaries	22,134	22,134	22,134	22,134	22,134
674	Employee Pensions and Benefits	0	0	0	0	0
676	Uncollectible Accounts Expense	1,400	1,400	1,400	1,400	1,400
678	Office Services and Rentals	1,266	1,266	1,266	1,266	1,266
681	Office Supplies and Expenses	2,606	2,606	2,606	2,606	2,606
682	Professional Services	4,736	4,736	4,736	4,736	4,736
684	Insurance	3,559	3,559	3,559	3,559	3,559
688	Regulatory Commission Expense	2,025	2,025	2,025	2,025	2,025
689	General Expenses	520	520	520	520	520
	<b>SUBTOTAL</b>	<b>125,756</b>	<b>125,756</b>	<b>125,756</b>	<b>125,756</b>	<b>125,756</b>
403	Depreciation Expense	26,746	26,746	26,746	26,746	26,746
407	SDWBA Loan Amortization Expense	0	0	0	0	0
408	Taxes Other Than Income Taxes	10,826	10,826	10,826	10,826	10,826
409/410	Income Taxes & Franchise Fee	800	11,012	11,012	11,012	11,012
	<b>TOTAL DEDUCTIONS</b>	<b>164,128</b>	<b>174,340</b>	<b>174,340</b>	<b>174,340</b>	<b>174,340</b>
	<b>NET REVENUE</b>	<b>-24,137</b>	<b>37,841</b>	<b>-34,349</b>	<b>37,841</b>	<b>37,841</b>
	<b>RATE BASE</b>	<b>285,596</b>	<b>285,596</b>	<b>285,596</b>	<b>285,596</b>	<b>285,596</b>
	<b>RATE OF RETURN</b>	<b>-8.45%</b>	<b>13.25%</b>	<b>-12.03%</b>	<b>13.25%</b>	<b>13.25%</b>

**Appendix B**  
**(Page 1 of 1)**  
River Island Water Co.

**Schedule No. 1**  
**GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The area known as Tract No. 389 and vicinity, adjacent to the River Island Golf Course. Located approximately 4 miles south of Springville, Tulare County.

**RATES**

Monthly Quantity Rates:

For all water up to 10,000 cu. ft., per 100 cu. ft	\$1.18	(I)
For all water over 10,001 cu. ft., per 100 cu. ft	\$1.60	(I)

Monthly Service Charge:

	<u>Per Connection</u>	
	<u>Per Month</u>	
For 5/8 x 3/4 inch meter	\$16.44	(I)
For 3/4 inch meter	\$24.66	(N)
For 1 inch meter	\$41.10	(I)
For 1-1/2 inch meter	\$82.20	(N)
For 2 inch meter	\$131.51	(I)

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

**SPECIAL CONDITIONS**

1. A late charge will be imposed per Schedule No. LC. (N)
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the Company, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord or property owner. (N)

3. All bills are subject to the Reimbursement fee set forth in Schedule No. UF. (L)

**Appendix C  
 (Page 1 of 2)**

River Island Water Co.  
 Comparison of Rates – Test Year 2007

A comparison of bills for each customer classification is shown below:

<b>COMPARISON OF RATES - Residential</b>				
Per Service Connection Per Month				
		Present	Recommended	Percent
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Service Charge:				
	For 5/8 x 3/4-inch meters	\$11.18	\$16.44	47.0%
	For 3/4-inch meters	\$0.00	\$24.66	---
	For 1-inch meters	\$27.43	\$41.10	49.8%
	For 1-1/2-inch meters	\$0.00	\$82.20	---
	For 2-inch meters	\$89.41	\$131.51	47.1%
Quantity Charge:				
	Per 100 cu. ft.			
	10,000 cu. ft. and less	\$0.79	\$1.18	48.9%
	10,001 cu. ft. and over	\$0.79	\$1.60	103.1%

A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu. ft.	Present Rates	Recommended Rates	Amount Increase	Percent Increase
0	\$11.18	\$16.44	\$5.26	47.0%
10	\$19.08	\$28.20	\$9.12	47.8%
20	\$26.98	\$39.97	\$12.99	48.1%
28.7 (avg.)	\$33.85	\$50.20	\$16.35	48.3%
40	\$42.78	\$63.49	\$20.71	48.4%
50	\$50.68	\$75.26	\$24.58	48.5%
100	\$90.18	\$134.08	\$43.90	48.7%
110	\$98.08	\$150.12	\$52.04	53.1%

**Appendix C  
 (Page 2 of 2)**

River Island Water Co.  
 Comparison of Rates - Test Year 2007

A comparison of bills for each customer classification is shown below:

<b>COMPARISON OF RATES - Commercial</b>				
Per Service Connection Per Month				
		Present	Recommended	Percent
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
<b>Service Charge:</b>				
	For 5/8 x 3/4-inch meters	\$11.18	\$16.44	47.0%
	For 3/4-inch meters	\$0.00	\$24.66	---
	For 1-inch meters	\$27.43	\$41.10	49.8%
	For 1-1/2-inch meters	\$0.00	\$82.20	---
	For 2-inch meters	\$89.41	\$131.51	47.1%
<b>Quantity Charge:</b>				
	Per 100 cu. ft.			
	10,000 cu. ft. and less	\$0.79	\$1.18	48.9%
	10,001 cu. ft. and over	\$0.79	\$1.60	103.1%

A monthly bill comparison for a customer with a 2-inch meter is shown below:

Usage	Present	Recommended	Amount	Percent
<u>100 cu. ft.</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
0	\$89.41	\$131.51	\$42.10	47.1%
10	\$97.31	\$143.28	\$45.97	47.2%
20	\$105.21	\$155.04	\$49.83	47.4%
30	\$113.11	\$166.81	\$53.70	47.5%
34.8 (avg.)	\$116.90	\$172.45	\$55.55	47.5%
40	\$121.01	\$178.57	\$57.56	47.6%
50	\$128.91	\$190.33	\$61.42	47.6%
100	\$168.41	\$249.15	\$80.74	47.9%
110	\$176.31	\$265.20	\$88.89	50.4%