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Agenda Item #7939

WATER/RSK/jj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
W-Water and Sewer Advisory Branch**

**RESOLUTION NO. W-4714
October 2, 2008**

R E S O L U T I O N

(RES. W-4714), NORTH GUALALA WATER COMPANY (North Gualala). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL REVENUES OF \$236,147 OR 44.3% FOR TEST YEAR 2008.

SUMMARY

By amended Draft Advice Letter filed on February 26, 2008, North Gualala seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on February 26, 2008.

For Test Year 2008, this resolution grants an increase in gross annual revenues of \$236,147 or 44.3% which will provide a rate of return of 12.5%.

BACKGROUND

North Gualala, a Class C water utility, has requested authority under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$233,258 or 43.8% for test year 2008. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. North Gualala's requests shows 2008 gross revenues of \$533,153, increasing to \$766,411 at proposed rates. North Gualala is requesting a rate of return of 12.44%.

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The present rates were established on December 27, 2005, by approval of a Consumer Price Index increase. The last general rate increase was granted some 18 years ago on July 2, 1990, pursuant to Res. W-3501.

North Gualala serves the community of Gualala and vicinity in Mendocino County, approximately 15 miles south of Point Arena. North Gualala has 1,040 metered connections which serve some 2,500 residents.

North Gualala derives some of its water supply from two coastal streams, Robinson Gulch and Big Gulch, which has a surface water treatment plant. North Gualala also pumps water from two wells located in Elk Prairie. Water is delivered to eight pressure zones by both gravity and pressure systems through approximately 155,402 feet of main line ranging in diameter from 2-inches to 12-inches. There are 30 storage tanks in various locations throughout the system. The service area terrain constrains the building of water main loop configurations, so there are relatively few main loops and consequently many dead-end on the system.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on or prior to June 17, 2008. In addition, the same notice was published in the local general circulation newspaper – Independent Coast Observer – on March 7, 2008. DWA and North Gualala received three letters opposed to the rate increase.

An informal public meeting was held on March 25, 2008 in the community. The meeting started at 7:00 PM with four customers in attendance, as well as representatives from the neighboring water utilities – Point Arena Water Works and the Sea Ranch Water Company. The Division’s representative explained Commission procedures, as well as the purpose of the meeting. North Gualala’s owner made a presentation to explain the need for the rate increase. Five members in attendance spoke in favor of the rate increase, while one customer opposed the rate increase because of water quality and service concerns. The Division and North Gualala subsequently investigated this customer’s concerns and did not discover any problems.

DISCUSSION

The Division made an independent analysis of North Gualala's operations. Appendix A shows North Gualala's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2008. North Gualala is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses including purchased power, volume related expenses, employee labor, materials, contract work, transportation expenses, office salaries, management salaries, employee benefits, uncollectibles, office service and rentals, office supplies and expenses, professional services, insurance, general expenses, depreciation, and taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

North Gualala has requested a rate of return of 12.44%. North Gualala, at 1,040 service connections for Test Year 2008, is a Class C water utility. The Division's Utility Audit, Finance and Compliance Branch (UAF&CB) recommends a rate of return from 12% to 13% for a Class C, 100% equity-financed utility.

Two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per Decision (D.) 02-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the rate of margin method, the utility's revenue requirements is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. UAF&CB has recommended a rate of margin of 19% for Class C water utilities. Using the Rate of Margin method, the revenue requirement is \$891,400 while using the Rate of Return method yields a revenue requirement of \$769,300. To minimize rate shock, North Gualala has requested that the Rate of Return

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method be used to lower the revenue requirement. North Gualala currently has a Safe Drinking Water Bond Act surcharge and future such surcharges are anticipated. As such, DWA concurs and recommends the rate of return method.

North Gualala's customers receive service under Schedule No. 1, General Metered Service. The rates proposed by the Branch are shown in Appendix B.

To promote water conservation, North Gualala has complied with specific objectives in accordance with the CPUC's Water Action Plan (WAP) including implementing rate designs to encourage conservation and efficient water use. North Gualala has proposed (1) a two-tier rate structure for their quantity charge and (2) a reduction in the percentage of fixed costs recovery in service charges in their Schedule No. 1, General Metered Service.

North Gualala proposes a two-tier rate structure; the first tier rate will apply to all water used up to 3 Ccf per month, while the second tier rate will apply to quantities above 3 Ccf. Because of the relatively low average monthly water use of 6.2 Ccf, North Gualala believes that a tier split at 3 Ccf is reasonable. Division concurs.

North Gualala also proposes to reduce the amount of fixed cost recovery from the service charges from 66% to 55%. While the Division's Standard Practice U-7 allows Class C water utilities to recover up to 66% of their fixed costs through the service charge, the Division concurs with North Gualala to reduce the recovery percentage so that customers' bills are more quantity dependent. And combined with a two-tier rate design, there is even a greater incentive to save water.

At the Division's recommended rates shown in Appendix B, the monthly bill for a 5/8-inch metered customer using 6.2 Ccf would increase from \$41.21 to \$59.38 or 44.1%. The current quantity rate increases from \$3.13/Ccf to \$4.25/Ccf up to 3 Ccf, and at \$5.40/ccf for more than 3 Ccf.

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.

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COMPLIANCE

The utility has been filing annual reports as required. The California Department of Public Health (DPH) performed the last annual inspection of North Gualala in August 2003. The findings were that the system has no major deficiencies.

North Gualala has, however, received a compliance order from DPH on September 9, 2008 requiring it (1) to develop a source capacity planning study by October 1, 2009, and (2) submit a plan by March 1, 2009 to address source capacity deficiencies. DPH has concluded that North Gualala does not have sufficient water rights to its existing water supply and therefore cannot provide a reliable and adequate supply of wholesome water.

The Division recommends that North Gualala add tariff Rule Nos. 5, Special Information Required on Forms; 10, Disputed Bills; 20, Water Conservation; and 21, Fire Protection; and Form 3, Bill for Service.

COMMENTS

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

FINDINGS

1. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. North Gualala needs to add tariff Rules 5, Special Information Required on Forms; 10, Disputed Bills; 20, Water Conservation; and No. 21, Fire Protection; and Form 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to North Gualala Water Company, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendix A and B, respectively and concurrently cancel its presently effective Schedule No. 1. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. North Gualala Water Company is authorized to increase its annual revenues by \$226,147 or 44.3% for test year 2008.
3. DWA recommends that North Gualala add tariff Rules 5, Special Information Required on Forms; 10, Disputed Bills; 20, Water Conservation; and No. 21, Fire Protection; and Form 3, Bill for Service.
4. 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 October 2, 2008; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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Appendix A
North Gualala Water Company

Summary of Earnings

Test Year 2008

<u>Item</u>	<u>Utility Estimated</u>		<u>Division Estimated</u>		<u>Adopted</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
<u>Operating Revenue</u>					
General Metered Sales	\$ 533,153	\$ 766,411	\$ 533,153	\$ 766,411	\$ 769,300
<u>Operating Expenses</u>					
Purchased Power	\$68,922	\$68,922	\$68,922	\$68,922	\$68,922
Other Volume Related Expenses	\$4,951	\$4,951	\$4,951	\$4,951	\$4,951
Employee Labor	\$97,899	\$97,899	\$97,899	\$97,899	\$97,899
Materials	\$11,280	\$11,280	\$11,280	\$11,280	\$11,280
Contract Work	\$46,008	\$46,008	\$46,008	\$46,008	\$46,008
Transportation Expenses	\$26,330	\$26,330	\$26,330	\$26,330	\$26,330
Other Plant Maintenance	\$0	\$0	\$0	\$0	\$0
Office Salaries	\$57,252	\$57,252	\$57,252	\$57,252	\$57,252
Management Salaries	\$67,838	\$67,838	\$67,838	\$67,838	\$67,838
Employee Benefits	\$49,675	\$49,675	\$49,675	\$49,675	\$49,675
Uncollectibles Expense	\$400	\$400	\$400	\$400	\$400
Office Services & Rentals	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Office Supplies & Expenses	\$24,242	\$24,242	\$24,242	\$24,242	\$24,242
Professional Services	\$111,620	\$111,620	\$111,620	\$111,620	\$111,620
Insurance	\$33,417	\$33,417	\$33,417	\$33,417	\$33,417
Regulatory Commission Expense	\$0	\$0	\$0	\$0	\$0
General Expenses	\$6,582	\$6,582	\$6,582	\$6,582	\$6,582
Subtotal	\$ 612,416	\$ 612,416	\$ 612,416	\$ 612,416	\$ 612,416
Depreciation	\$ 30,232	\$ 30,232	\$ 30,232	\$ 30,232	\$ 30,232
Taxes other than Income	\$ 63,331	\$ 63,331	\$ 63,331	\$ 63,331	\$ 63,331
Income Taxes	\$ 800	\$ 14,136	\$ 800	\$ 14,115	\$ 15,028
Interest					
Total Deductions	\$706,779	\$720,115	\$706,779	\$720,094	\$721,007
Net Revenue	-\$173,626	\$46,296	-\$173,626	\$46,317	\$48,293
<u>Rate Base</u>					
Average Plant	\$ 3,011,519	\$ 3,011,519	\$ 3,026,341	\$ 3,026,341	\$ 3,026,341
Ave. Accumulated Depreciation	\$ 1,179,492	\$ 1,179,492	\$ 1,676,970	\$ 1,676,970	\$ 1,676,970
Net Plant	\$ 1,832,027	\$ 1,832,027	\$ 1,349,371	\$ 1,349,371	\$ 1,349,371
<u>Less Advances</u>	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	\$ 1,518,973	\$ 1,518,973	\$ 1,082,089	\$ 1,082,089	\$ 1,082,089
Plus Working Cash	\$ 48,564	\$ 48,564	\$ 106,310	\$ 108,529	\$ 108,681
Materials & Supplies	\$ 10,401	\$ 10,401	\$ 10,401	\$ 10,401	\$ 10,401
Rate Base:	\$ 372,019	\$ 372,019	\$ 383,993	\$ 386,212	\$ 386,364
<u>Rate of Return</u>	-46.67%	12.44%	-45.22%	11.99%	12.50%

(END OF APPENDIX A)

APPENDIX B
North Gualala Water Company
Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service

TERRITORY

Gualala and vicinity located approximately 15 miles south of Point Arena,
Mendocino County.

RATES

<u>Quantity Rates:</u>	<u>Per Meter Per Month</u>	<u>SDWBA Surcharge Per Meter/Per Month</u>
For 5/8 x 3/4-inch meter:	(N)	
First 300 cu. ft. of water, per 100 cu. ft.	\$ 4.25 (I)	
Over 300 cu. ft. of water, per 100 cu. ft.	\$ 5.40 (N)	
All other meter sizes:	(N)	
All water, per 100 cu. ft.	\$ 5.40 (N)	

Service Charge:

For 5/8 x 3/4-inch meter	\$ 28.50 (I)	\$ 14.70
For 3/4-inch meter	\$ 42.80 (I)	\$ 22.05
For 1-inch meter	\$ 71.30 (I)	\$ 36.75
For 1-1/2-inch meter	\$ 142.60 (I)	\$ 73.50
For 2-inch meter	\$ 228.20 (I)	\$ 117.60
For 3-inch meter	\$ 427.90 (I)	\$ 220.50
For 4-inch meter	\$ 713.20 (I)	\$ 367.50

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

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**APPENDIX B
North Gualala Water Company**

**Schedule No. 1
(continued)**

GENERAL METERED SERVICE

SPECIAL CONDITIONS

1. All bills are subject to reimbursement as set forth in Schedule No. UF.
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 Resolution F-645 and Resolution W-4108.
3. A late charge will be imposed per Schedule No. LC.
4. 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.

(D)

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(END OF APPENDIX B)

APPENDIX C
North Gualala Water Company
Test Year 2008

COMPARISON OF RATES:

Monthly Quantity Rate

<u>Quantity Rates:</u>	<u>Present Rates</u>	<u>New Rates</u>	<u>Percent Increase</u>
For 5/8 x 3/4-inch meter:			
First 300 cu. ft. of water, per 100 cu. ft.	\$3.13	\$4.25	36%
Over 300 cu. ft. of water, per 100 cu. ft.	\$3.13	\$5.40	73%
All other meter sizes:			
All water, per 100 cu. ft.	\$3.13	\$5.40	73%

METERED SERVICE

Per Service Connection Per Month:

	<u>Present Rates</u>	<u>New Rates</u>	<u>Percent Increase</u>
For 5/8 x 3/4- inch meters	\$ 21.80	\$ 28.50	31%
For 3/4 inch meters	\$ 27.34	\$ 42.80	57%
For 1 – inch meters	\$ 39.63	\$ 71.30	80%
For 1 1/2 inch meters	\$ 65.05	\$ 142.60	119%
For 2-inch meters	\$ 93.67	\$ 228.20	144%
For 3-inch meters	\$ 176.88	\$ 427.90	142%
For 4-inch meters	\$ 268.31	\$ 713.20	166%

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

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$21.80	\$ 28.50	\$ 6.70	31%
3	31.19	41.25	10.06	32%
6.2 (avg.)	41.21	59.38	18.17	44%
10	53.10	79.05	25.95	49%
15	68.75	106.05	37.30	54%
20	84.40	133.05	48.65	58%

(END OF APPENDIXC)

APPENDIX D
North Gualala Water Company
Adopted Quantities
Test Year 2008

Service Connections

5/8 x 3/4- inch meters	1,016
3/4 inch meters	7
1 – inch meters	10
1 1/2 inch meters	5
2-inch meters	2
3-inch meters	0
4-inch meters	0

Total Water Sold, Ccf:	81,203
Total Water produced, Ccf:	95,533
Total kWh	450,468
kWh/Ccf produced	4.72
Composite rate (\$/kWh)	0.15300
PG&E A-1 Schedule	

Tax Calculations

Operating Revenues	\$ 769,300
Expenses	\$ 612,416
Depreciation	\$ 30,232
Taxes other than Income	\$ 63,331
Taxable Income for State	\$ 63,321
State tax	\$ 5,598
Taxable Income for Federal	\$ 57,723
Federal tax	\$ 9,431

(END OF APPENDIX D)