

WATER/RSK/BMD/MML/jlj

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

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

**RESOLUTION NO. W-4916  
May 24, 2012**

**RESOLUTION**

**(RES. W-4916), NORTH GUALALA WATER COMPANY (North Gualala).  
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC),  
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$205,923 OR  
27.1% FOR TEST YEAR (TY) 2010.**

---

**SUMMARY**

By Advice Letter (AL) 72 filed on October 4, 2010, and supplemented by AL 72-A filed on October 26, 2010, North Gualala seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. For TY 2010, this Resolution grants an increase in gross annual revenues of \$205,923 or 27.1%, over current rates. This will provide a rate of margin of 21.7%, based on Division of Water and Audits' (Division) estimate of sales and expenses.

**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 \$223,819 or 29.8% for TY 2010. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. North Gualala's request was based on a rate of margin of 21.7%.

The present rates became effective on October 1, 2010, by approval of AL 73, which authorized an interim increase of \$20,289 or 2.7%, subject to refund or increase to the rates established in this GRC. The last GRC became effective on October 2, 2008, pursuant to Res. W-4714, which granted an increase in revenues of \$236,147 or 44.3%.

The current interim increase, filed in 2010, is subject to increase or refund to the rates determined for a 2010 TY. Therefore the rates in this resolution are for TY 2010, even though it was delayed to 2012 due to an audit.

North Gualala serves the community of Gualala and vicinity in Mendocino County, approximately 15 miles south of Point Arena. North Gualala has 1,043 metered connections. 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 158,602 feet of main line ranging in diameter from 2-inches to 12-inches. There are 46 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-ends in the system.

### **NOTICE AND PROTEST**

AL 72-A was served on October 26, 2010, in accordance with GO 96-B, including on adjacent utilities and persons on the general service list. A notice of the proposed rate increase was mailed to each customer and the service list on May 25, 2011. Three customer letters questioning the rate increase were timely received, and the utility replied.

An informal public meeting was held on June 21, 2011, in the Cypress Way Conference Room. The meeting started at 6:30 PM, and four customers attended. The Division's representative explained Commission procedures and the purpose of the meeting. North Gualala's owner made a brief statement about the need for an increase, and North Gualala's rate consultant made a more detailed presentation on this matter. Division staff and the North Gualala representatives answered questions until approximately 7:15 PM.

Much of the customer feedback, in both letters and at the public meeting, dealt with the timing of the requested increase given the bad economy. There were also questions during the public meeting about specific expense items and general rate-making procedures.

In setting rates in this resolution, we have balanced the financial requirements of North Gualala with the rate concerns of its customers.

### **DISCUSSION**

The Division made an independent analysis of North Gualala's operations. The Utility Audit, Finance and Compliance Branch (UAFCB) audited selected data for Fiscal Year

2008, 2009, and 2010. This audit was completed on December 23, 2011. Appendix A shows North Gualala's and the Division's estimated summary of earnings at present and proposed rates for TY 2010 and the Division's recommended rates for TY 2010. The Division informed North Gualala of how the methodologies it used differed from those used in North Gualala's request. Adjustments were also made based on the UAFCB audit. North Gualala is now in agreement with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increases and resulting rates shown in Appendix B.

The Division's estimate of North Gualala's operating expenses is based on data from years 2007-2009 except for expenses relating to purchased power, insurance, office and management salaries. For estimating purchased power costs, the Division used the twelve months of actual usage ending in December 2009. The quantities used to calculate purchased power are found in Appendix D. The Division used current actual costs for insurance and accepted North Gualala's estimate for office and management salaries. For estimating all other expense categories, Division escalated and averaged 2007-2009 expenses using factors from the November 30, 2010 escalation memorandum from the Division of Ratepayer Advocates. The Division's estimate differed from North Gualala's in purchased power and other volume related expenses due to a difference in estimated production. Differences in professional services and general expenses are due changes made as a result of the UAFCB's audit.

North Gualala requested a 21.7% rate of margin, the rate of margin recommended at the time of filing for a Class C utility. In Decision (D.) 92-03-093 effective April 30, 1992, the Commission adopted the Return on Margin ratemaking as an alternate to the Return on Net Investment (rate base) method for calculating net revenue for Class C and Class D Utilities and required the Division to recommend the method that produces the higher net revenue result. The Division found that using the 21.7% ROM would produce more revenue than calculated using the rate of return on rate base method. Therefore, Division recommends revenues using the 21.7% rate of margin.

North Gualala's rate structure consists of one schedule: Schedule No. 1, General Metered Service. The rates proposed by the Division are shown in Appendix B. At the recommended rates, the increase in revenue will be \$205,923 or 27.1% for TY 2010.

At the Division's recommended rates shown in Appendix B, monthly service charge rates for a customer with the smallest meter and an average consumption of 6 Ccf (one Ccf is equal to one hundred cubic feet) will increase from \$60.53 to \$77.13, a difference of \$16.60 or 27.4%. 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.

North Gualala also requested to increase its facilities, providing calculations based on project capital outlays and new connections over the next ten years. DWA believes the requested fees are reasonable and recommends they be adopted. The tariff is found in Appendix B.

The under-collected revenues from the interim rate date to the effective date of the new rates will be approximately 40% of annual revenues. It is Division policy to recommend that surcharge amounts in excess of 10% of gross revenues are collected over a period of thirty-six months to minimize the burden on ratepayers. (Standard Practice U-27-W, paragraph 56b.) North Gualala should be authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect over a thirty-six month period the under-collected revenues from the interim rate date to the effective date of the new rates. This advice letter should not become effective until it is approved by the Division or the Commission.

In its last GRC, North Gualala was allowed annual amortization of \$51,872 as part of its annual professional services expense. This amortization was intended to recover \$420,533 in costs associated with defending its water rights. Water and Sewer Advisory Branch was concerned that this amount may not have been examined adequately and requested that UAFCB review the water rights cost incurred by North Gualala. UAFCB's review of the accounting records and invoices submitted by North Gualala to substantiate its water rights cost disclosed that the total water rights cost should be \$412,880 and not the \$420,533 claimed by North Gualala. However, UAFCB recommends the continuation of North Gualala's annual amortization of \$51,872 until the adjusted amount of \$412,880 is fully amortized in October 2016. North Gualala should be ordered to file a Tier 2 advice letter by September 1, 2016 to reduce rates in October 2016 to reflect the end of the \$51,872 annual amortization. This advice letter should not become effective until it is approved by the Division or the Commission.

### COMPLIANCE

The utility has been filing annual reports as required.

North Gualala needs to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet current Commission standards: Title Page and Form 3, Bill for Service.

## COMMENTS

Public Utilities Code 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment period prior to a vote of the Commission.

Accordingly, the draft Resolution is being mailed to the utility, all protestants and those requesting service at the public meeting, and made available for public comment. Comments were received from the utility on May 10, 2012. To the extent that changes were necessary, they have been made herein.

## FINDINGS

1. North Gualala is a Class C water utility.
2. North Gualala has requested authority to increase its water rates by \$223,819 or 29.8% for test year 2010.
3. AL 72-A was served on October 26, 2010, in accordance with GO 96-B. A notice of the proposed rate increase was mailed to each customer and the service list on May 25, 2011.
4. In reviewing North Gualala's request, the Division made an independent analysis of North Gualala's operations.
5. The UAFCB audited selected data for Fiscal Year 2008, 2009, and 2010.
6. For estimating purchased power costs, the Division used the twelve months of actual usage ending in December 2009
7. The Division used current actual costs for insurance.
8. The Division accepted North Gualala's estimate for office and management salaries.
9. For estimating all other expense categories, the Division escalated and averaged 2007-2009 expenses using factors from the November 30, 2010 escalation memorandum from the Division of Ratepayer Advocates.
10. North Gualala agrees with Division's recommended revenue requirement.
11. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
12. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.

13. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
14. For TY 2010, it is appropriate to grant North Gualala an increase in gross revenues of \$205,923 or 27.1%, which is estimated to provide a rate of margin of 21.7%.
15. North Gualala should be ordered to file a Tier 1 advice letter within 30 days from the effective date of this Resolution revising the following forms and rules in its tariff book to meet current Commission standards: Title Page and Form 3, Bill for Service.
16. North Gualala should be authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect over a thirty-six month period the under-collected revenues from the interim rate date to the effective date of the new rates. This advice letter should not become effective until it is approved by the Division or the Commission.
17. UAFCB's review of the accounting records and invoices submitted by North Gualala to substantiate its water rights cost disclosed that the total water rights cost should be \$412,880.
18. North Gualala should be ordered to file a Tier 2 advice letter by September 1, 2016, to reduce rates in October 2016, to reflect the end of the \$51,872 annual amortization going to recover costs associated with defending water rights. This advice letter should not become effective until it is approved by the Division or the Commission.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to North Gualala Water Company to file a supplemental advice letter with the revised rate schedule attached to this resolution as Appendix B and concurrently cancel its presently effective Schedule No. 1, General Metered Service, and Schedule F, Facilities Fees. The effective date of the revised rate schedule shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
3. North Gualala Water Company is ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet current Commission standards: Title Page and Form 3, Bill for Service.

4. North Gualala Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect over a thirty-six month period the under-collected revenues from the interim rate date to the effective date of the new rates. This advice letter will become effective upon approval by the Division of Water and Audits or the Commission.
5. North Gualala is ordered to file a Tier 2 advice letter by September 1, 2016, to reduce rates in October 2016, to reflect the end of the \$51,872 annual amortization going to recover costs associated with defending water rights. This advice letter will become effective upon approval by the Division of Water and Audits or the Commission.
6. 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 24, 2012; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon  
Executive Director

MICHAEL R. PEEVEY  
President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

**Appendix A**  
**North Gualala Water Company**  
**SUMMARY OF EARNINGS**  
**Test Year 2010**

Item	Utility Estimated		Branch Estimated		Recommended Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b>OPERATING REVENUES</b>					
Metered Rates	\$738,053	\$961,872	\$747,209	\$961,872	\$953,132
Other Water Revenue	\$13,400	\$13,400	\$13,400	\$13,400	\$13,400
<b>Total Revenue</b>	<b>\$751,453</b>	<b>\$975,272</b>	<b>\$760,609</b>	<b>\$975,272</b>	<b>\$966,532</b>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$75,077	\$75,077	\$71,411	\$71,411	\$71,411
Other Volume Related Expenses	\$2,798	\$2,798	\$2,636	\$2,636	\$2,636
Employee Labor	\$101,704	\$101,704	\$101,704	\$101,704	\$101,704
Materials	\$21,525	\$21,525	\$21,525	\$21,525	\$21,525
Contract Work	\$12,238	\$12,238	\$12,238	\$12,238	\$12,238
Water Testing	\$13,815	\$13,815	\$13,815	\$13,815	\$13,815
Transportation	\$28,637	\$28,637	\$28,637	\$28,637	\$28,637
Other Plant Maintenance	\$0	\$0	\$0	\$0	\$0
Office Salaries	\$71,624	\$71,624	\$71,624	\$71,624	\$71,624
Management Salaries	\$70,233	\$70,233	\$70,233	\$70,233	\$70,233
Employee Benefits	\$50,707	\$50,707	\$50,707	\$50,707	\$50,707
Uncollectibles	\$751	\$975	\$975	\$975	\$975
Office Services & Rental	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Office Supplies and Exp	\$32,589	\$32,589	\$32,589	\$32,589	\$32,589
Professional Services	\$68,327	\$68,327	\$80,133	\$80,133	\$80,133
Insurance	\$28,608	\$28,608	\$28,608	\$28,608	\$28,608
Regulatory Comm Exp	\$6,800	\$6,800	\$4,680	\$4,680	\$4,680
General Expenses	\$23,016	\$23,016	\$10,848	\$10,848	\$10,848
Subtotal	\$614,449	\$614,673	\$608,364	\$608,364	\$608,364
Depreciation Expense	\$39,042	\$39,042	\$39,042	\$39,042	\$39,042
Taxes other than income	\$69,491	\$69,491	\$69,491	\$69,491	\$69,491
State Income Tax	\$2,517	\$22,280	\$3,864	\$22,840	\$22,068
Federal Income Tax	\$3,893	\$72,850	\$5,977	\$75,109	\$72,002
<b>Total Deductions</b>	<b>\$729,392</b>	<b>\$818,336</b>	<b>\$726,738</b>	<b>\$814,846</b>	<b>\$810,966</b>
<b>NET REVENUE</b>	<b>\$22,061</b>	<b>\$156,936</b>	<b>\$33,871</b>	<b>\$160,426</b>	<b>\$155,567</b>
<b>RATE BASE</b>					
Average Plant	\$3,159,203	\$3,159,203	\$3,159,203	\$3,159,203	\$3,159,203
Average Depreciation Reserve	\$1,617,288	\$1,617,288	\$1,617,288	\$1,617,288	\$1,617,288
<b>Net Plant</b>	<b>\$1,541,915</b>	<b>\$1,541,915</b>	<b>\$1,541,915</b>	<b>\$1,541,915</b>	<b>\$1,541,915</b>
Working Cash	\$51,223	\$51,223	\$51,223	\$51,223	\$51,223
Materials and Supplies	\$10,459	\$10,459	\$10,459	\$10,459	\$10,459
Less Advances	\$0	\$0	\$0	\$0	\$0
Contributions	\$1,003,957	\$1,003,957	\$1,003,957	\$1,003,957	\$1,003,957
<b>Rate Base</b>	<b>\$599,640</b>	<b>\$599,640</b>	<b>\$599,640</b>	<b>\$599,640</b>	<b>\$599,640</b>
<b>RATE OF MARGIN</b>	<b>3.1%</b>	<b>21.7%</b>	<b>4.7%</b>	<b>22.4%</b>	<b>21.7%</b>

(END OF APPENDIX A)

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

**APPLICABILITY**

Applicable to all water service furnished on a metered basis.

**MORATORIUM**

Until further notice, pursuant to the terms of the Settlement Agreement adopted by Order 2009-0036-EXEC issued by the State Water Resources Control Board (SWRCB) on June 9, 2009, no new service connections can be made by the utility that were not the subject of an intent-to-serve letter dated prior to October 28, 2008. New service connections that were subject to an intent-to-serve letter dated prior to October 28, 2008, can be made only after a 30-day written notification has been provided by the utility to the Deputy Director of Water Rights.

**TERRITORY**

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

**RATES**

Quantity Rates		(T)
For 5/8 x 3/4 inch meter		
First 300 cu.ft. of water, per 100 cu.ft.	\$5.64	(I)
Over 300 cu.ft. of water, per 100 cu.ft.	\$7.16	(I)
All other meter sizes:		
All water, per 100 cu.ft.	\$7.16	(I)

	<u>Per Meter Per Month</u>	
	<u>Service Charge</u>	<u>SDWBA Surcharge</u>
For 5/8 x 3/4 inch meter	\$38.75 (I)	\$14.70
For 3/4-inch meter	\$58.12	\$22.05
For 1-inch meter	\$96.87	\$36.75
For 1-1/2 inch meter	\$193.74	\$73.50
For 2-inch meter	\$309.99	\$117.60
For 3-inch meter	\$581.23	\$220.50
For 4-inch meter	\$968.72 (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 month charges computed at Quantity Rates.

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee 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.

**Appendix B**  
**Sheet 2**  
**North Gualala Water Company**

**SCHEDULE F**

**FACILITIES FEES**

**Test Year 2011**

**APPLICABILITY**

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

**TERRITORY**

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

**RATES**

**Initial Fee for each Service Connection:**

For 5/8 x 3/4-inch meter	\$4,558	(I)
For 3/4-inch meter	\$6,837	
For 1-inch meter	\$11,395	
For 1.5-inch meter	\$22,790	
For 2-inch meter	\$36,464	
For 3-inch meter	\$68,370	
For 4-inch meter	\$113,950	(I)

**SPECIAL CONDITIONS**

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions, and Rule 16, Service Connections, Meters, and Customer's Facilities.
2. Payments made under this schedule **are not** subject to the reimbursement fee set forth in Schedule No. UF.

**(END OF APPENDIX B)**

**APPENDIX C**

**North Gualala Water Company**

COMPARISON OF RATES  
 TEST YEAR 2010

<u>Tariff Description</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Interim</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Service Charge:				
5/8 x 3/4 inch meter	\$30.02	\$38.75	\$8.73	29.1%
3/4-inch meter	\$45.08	\$58.12	\$13.04	28.9%
1-inch meter	\$75.09	\$96.87	\$21.78	29.0%
1-1/2 inch meter	\$150.18	\$193.74	\$43.56	29.0%
2-inch meter	\$240.34	\$309.99	\$69.65	29.0%
3-inch meter	\$450.66	\$581.23	\$130.57	29.0%
4-inch meter	\$751.14	\$968.72	\$217.58	29.0%
Quantity Charge:				
First 300 cu. ft. of water, per 100 cu. ft.	\$4.48	\$5.64	\$1.16	25.8%
Over 300 cu. ft. of water, per 100 cu. ft.	\$5.69	\$7.16	\$1.47	25.8%

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

<u>Usage 100 cu. Ft.</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Interim</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
0	\$30.02	\$38.75	\$8.73	29.1%
5	\$54.84	\$69.97	\$15.13	27.6%
6	\$60.53	\$77.13	\$16.60	27.4%
10	\$83.29	\$105.76	\$22.47	27.0%
15	\$111.74	\$141.55	\$29.81	26.7%
20	\$140.19	\$177.33	\$37.14	26.5%
30	\$197.09	\$248.91	\$51.82	26.3%

A monthly bill comparison for a customer with a 1-inch meter is shown below:

<u>Usage 100 cu. Ft.</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Interim</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
0	\$75.09	\$96.87	\$21.78	29.0%
5	\$103.54	\$132.66	\$29.12	28.1%
6	\$109.23	\$139.82	\$30.59	28.0%
10	\$131.99	\$168.45	\$36.46	27.6%
15	\$160.44	\$204.24	\$43.80	27.3%
20	\$188.89	\$240.02	\$51.13	27.1%
30	\$245.79	\$311.60	\$65.81	26.8%

**(END OF APPENDIX C)**

**APPENDIX D**  
**North Gualala Water Company**  
**ADOPTED QUANTITIES**  
**TEST YEAR 2010**

1. Purchased power

	Vendor	Pacific Gas and Electric
	kWh/Ccf	4.982
	Adopted Usage kWh	407,458
	Total Cost	\$71,411
	Composite Energy Cost (\$/kWh)	\$0.17526

2. Water	Sales:	Ccf	69,763
	Production:	Ccf	81,786
	Non-Revenue:	%	14.7%

3. Number of Service Connections:

Meter Size	Average Number of Customers
5/8 x 3/4-inch	1019
3/4-inch	7
1-inch	10
1 1/2-inch	5
2-inch	2
3-inch	0
4-inch	0

4. Tax calculation:

Item	State Tax	Federal Tax
Operating Revenue	\$966,532	\$966,532
O & M Expenses	\$608,364	\$608,364
Taxes Other Than Income	\$69,491	\$69,491
Depreciation	\$39,042	\$39,042
Interest Expense	\$0	\$0
Taxable Income for State Tax	\$249,636	
State Tax	\$22,068	
Taxable Income for FIT		\$227,568
Federal Income Tax		\$72,002
Total Income Tax		\$94,069

California Corporate Franchise Rate 8.84%

Federal Income Tax Rate	1st \$50K	15%
	Next \$25K	25%
	Next \$25K	34%
	Next \$235K	39%

**(END OF APPENDIX D)**