

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

**WATER DIVISION**

**RESOLUTION. NO. W-4634**

**March 15, 2007**

**R E S O L U T I O N**

**(RES. W-4634), RIVERVIEW ESTATES WATER COMPANY (RIVERVIEW). ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC) OF 45.2%, PRODUCING AN ADDITIONAL \$3,720 OF REVENUES RELATIVE TO 2005 GROSS REVENUES. RIVERVIEW IS ALSO AUTHORIZED TO INCREASE ITS RECONNECTION CHARGE AND TO ESTABLISH A LATE PAYMENT CHARGE.**

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**SUMMARY**

By Draft Advice Letter accepted on April 7, 2006, Riverview requested an increase of \$5,107 or 100.3% in annual gross revenue for test year 2006. For Test Year 2006, this Resolution grants a rate increase of 45.2% or an increase of \$3,720 in total gross annual revenues relative to 2005 gross revenues, which is estimated to provide a 25% rate of margin. Riverview is also authorized to increase its reconnection charge and to establish a late payment charge.

**BACKGROUND**

Riverview is a Class D water utility serving residents of a land development located approximately 3 miles north of Los Molinos, Tehama County. The development has 14 occupied lots plus 3 other lots under construction, all of which are on flat rate service. Riverview is owned and operated by Angelo L. Andreini III. Riverview bills its customers on a bimonthly basis.

Riverview requested authority under Section VI of General Order 96 and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$5,107 or 100.3% in test year 2006. By Res. No.W-4602, Riverview was authorized an interim rate increase of 15.8%, effective June 12, 2006, subject to refund or increase pending Commission-approved final GRC rates. Riverview also requested that its reconnection charge be increased and that a late charge be added to its tariff.

The last general rate increase, granting an increase of \$2,975 or 620% in gross revenue, was approved on August 3, 1994, by Res. No. W-3870. Riverview's request shows 2006 gross revenues of \$5,093 at pre-interim rates increasing to \$10,200 at proposed rates in 2006 to produce a 25% rate of margin as recommended by the Water Division's (Division's) Audit and

Compliance Branch memorandum dated February 27, 2006, for Class D water utilities (fewer than 500 customers).

Riverview's water supply is drawn from a 100-foot deep well having a capacity of approximately 600 gallons per minute using a 25-horsepower pump. The water is stored in a 5,000-gallon pressurized tank. The operating pressure of the system is approximately 42 pounds per square inch (PSI) at the end of the line. The system has 640 feet of 3-inch galvanized steel mains and 280 feet of 1-inch galvanized steel mains.

### **NOTICE**

A draft notice regarding the general rate increase was mailed to the utility on April 7, 2006. A notice of the full increase request was mailed to each customer on April 13, 2006.

### **PROTESTS**

The Water Division received written protests against the proposed rate increase from 11 of the 14 customers. A public meeting was held on August 31, 2006.

### **DISCUSSION**

Even with the 15.8% interim rate increase, Riverview was still operating at a loss in 2006. The rate increase request was based on financial information for the period from January through December 2005.

Division performed an independent analysis of Riverview's summary of earnings. Appendix A shows Riverview's estimates as well as the Division's estimates of the summary of earnings at pre-interim rates, requested rates, and recommended rates. Appendix B includes the proposed tariff sheets, Appendix C is the comparison of rates, and Appendix D shows the adopted quantities.

Riverview's estimate of water testing expense is \$1,158, while Division's estimate of this expense is \$796. Riverview did not provide verification of its estimate. Division's review revealed that Riverview contracts with a private company to perform water quality tests to comply with Tehama County Department of Environmental Health (DEH) regulations. DEH fees and testing expenses in 2006 amounted to \$603. Riverview currently has 14 connections, with 3 additional lots under construction that will be connected to the system in the weeks or months ahead. Tehama County DEH regulation requires monthly bacteriological testing once a water company reaches 15 connections or more, whereas Riverview currently monitors bacteria content on a quarterly basis. Changing from quarterly to monthly testing would increase the average annual testing cost and DEH fees to \$796.

Correspondingly all other relevant expenses have also been adjusted to reflect an anticipated 17 connections. Division also reduced the requested amount for uncollectibles to reflect historical amounts and lowered the insurance cost to represent the actual expense in 2006.

In Decision No. (D.) 92-03-093, effective April 30, 1992, the Commission adopted the operating ratio method of ratemaking as an alternative to the rate of return method on rate base for Class C and D utilities. Ordering paragraph of D.92-03-093 states:

*Branch 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.*

The Division's Audit and Compliance Branch memorandum dated February 27, 2006 recommends an operating margin of 25% as reasonable for Class D water utilities (fewer than 500 customers). Using the operating margin method with a return on margin of 25%, Riverview's revenue requirement is \$8,813.

For the return-on-rate base method, the February 27, 2006 memorandum also recommends a 12.75% to 13.75% rate of return for Class D water utilities. For a utility with no serious violations of Commission rules and orders and with no notable service-related issues, Division ordinarily recommends the midpoint of the range, or 13.25%, as the recommended rate of return on rate base. Using this rate of return, Division calculated a revenue requirement of \$7,174. Division, therefore, selected the operating ratio method in this GRC to produce \$8,813 in revenue since it generates the higher revenue requirement.

#### **Streamlined GRC Process**

Riverview has met the criteria for a streamlined GRC format first established for Cottage Springs Water Company in Res. W-4603 dated May 25, 2006. However, due to the significant percentage of customers who filed a written protest against the proposed rate increase and requested a public hearing, Division conducted a public meeting to answer questions and to address their concerns. In all other aspects of this GRC, Division strived to adopt the principles of the streamlined GRC format.

#### **Public Meeting**

The Division received written protests against the proposed increase from 11 households. In response to the written protests, a public meeting attended by 11 customers representing 7 households was held at Riverview Estates on August 31, 2006. During the public meeting, residents of Riverview Estates voiced strong opposition to the magnitude of the proposed 100.3% rate increase, although most were sympathetic to the need for some rate increase. Mr. Andreini pointed out that the factors giving rise to the high rates were: 1) there has been only one small inflation-based adjustment in 2005 since the last GRC in 1994; 2) Riverview has a very small customer base, translating into relatively high fixed costs per customer; and 3) Mr. Andreini is a non-resident owner/operator, which translates into higher operating costs due to frequent traveling by Mr. Andreini between his home and Riverview.

#### **Low Income Program**

The Division considered the feasibility of a differential rate structure that offers a 20% discount to low income customers. Data from the 2000 federal census shows that approximately 13% of Tehama County households fall below the federal poverty level. With a customer base of 17

households, this translates to, on average, between 2 and 3 households qualifying for low income assistance. Due to the small customer base and relatively high percentage of low income residents in Tehama County, the potential for large variability in the number of qualified low income residents makes a low income program impractical to implement for Riverview.

### **Conservation**

The Commission, through its Water Action Plan, encourages conservation and metering of all Riverview services. Riverview should be required to study the cost effectiveness of metering all services and the well source and report back to the Commission within 180 days of the effective date of the GRC Resolution.

Although Riverview lacks a main water meter, making it impossible to determine precise total water usage, its power consumption is assumed to be linearly correlated with the actual amount of water pumped and sold. Based on the kilowatt-hour (kWh) figures from its electric bills, Riverview's average per-customer water usage in 2006 decreased 27% versus 2005 usage, and decreased 24% versus 2004 usage, even though there was no noticeable change in customer count and no significant change in weather factors. Mr. Andreini suggested that the sharp decrease in water usage stemmed from customer reaction to the proposed rate increase, despite all his current customers being on flat rate service. It is expected that this conservation trend will moderate but still persist to a large extent once the rate increase goes into effect, even though Division's recommended rate increase is approximately only half of the originally requested rate increase.

### **Infrastructure Improvement**

According to Mr. Andreini, no short-term infrastructure improvement is anticipated. However, the current pump and tank are 30 to 40 years old and will need to be replaced in the coming years, at a cost of approximately \$15,000 to \$20,000 in 2006 dollars.

### **Late Payment Charge**

Riverview proposed a new late payment charge of 10% of the statement amount, plus 1% in interest cost per month, when a bill is either past due or delinquent, as defined by Tariff Rule 11, Section B.1.a (Past-due Bills), effective August 17, 1994. However, the Division recommends only a \$5 late charge per billing cycle, as shown in Schedule No. LC, as Res. W-4035 specifies that the late charge for a Class D water company may not exceed \$5.

### **Reconnection Charge**

Riverview requested an increase of the reconnection charge to \$45 during business hours and \$75 during non-business hours. Again, Res. No.W-4035 limits the charge to \$25.00 during business hours and \$40.00 during non-business hours. Riverview's tariff Rule No. 11 reflects lower charges. Riverview will have to revise its tariff Rule No. 11, Section C.1 (Reconnection Charge), effective August 17, 1994, to reflect the change to \$25.00 during business hours and \$40.00 during non-business hours.

## **COMPLIANCE**

The utility has been filing annual reports as required. There has been no customer complaint on record. The utility is also in compliance with all Tehama County Department of Environmental Health regulations on water quality.

The Division recommends that Riverview also needs to update its Service Area Map to reflect changes in its service territory since the last GRC in 1994.

In addition to updating its tariff rate schedules, the Division recommends that Riverview also needs to update the following tariff rules and forms:

Rule 3, (Application for Service) to add provision of Public Utilities Code Section 2714 regarding service to tenants; Rule 5, (Special Information Required on Forms); Rule 7, (Deposits); Rule 9, (Rendering and Payment of Bills); Rule 10 (Disputed Bills); Rule 11(Discontinuance and Restoration of Service); Form No. 2, (Form for "Customer's Deposit Receipt"); and Form No. 3, (Form for "Bill for Service").

## **COMMENTS**

The draft resolution of the Water Division in this matter was mailed to the parties in accordance with Public Utilities Code §311(g). Comments were received from Mr. Andreini, the owner of Riverview, on February 22, 2007.

1. Mr. Andreini protested against Division's estimate of the water testing costs. Division's estimate of the water testing costs was based on water testing requirements specified for Riverview by the Tehama County Department of Environment Health (DEH) assuming it has at least 15 water customers. The total costs for testing and DEH fees were then developed based on a quote from the same testing lab that Riverview is currently using. Division did not build a contingency in the fees in anticipation of extra tests beyond those currently specified by the DEH. In the event extra costs for water testing are incurred, Riverview may file an advice letter to request a reimbursement.
2. Mr. Andreini protested against Division's estimate of the uncollectible amounts for test year 2006. Staff's estimate was based on the average of reported uncollectible amounts for calendar years 2003 to 2005.
3. Mr. Andreini protested against Division's recommended amounts for late charge and reconnection fees. As stated previously in the draft resolution, the late payment charge and reconnection fees were the maximum allowed by Res. No. W-4035 for Class D water utilities.
4. Division previously recommended in the draft resolution that Riverview be required to install a water meter to comply with G.O. 103, Section II 4(a). After further consideration, Division agrees with Mr. Andreini that the estimated financial burden to install a water meter at a cost of approximately \$2,000 would be too great relative to the small customer base. Division

therefore recommends that this rule be relaxed so that Riverview will not be required to install a water meter at the well at this time.

**FINDINGS**

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The new rates proposed by the Division (Appendices B-1 and B-2) are reasonable and should be adopted.
3. The establishment of Schedule No. LC, Late Payment Charge (Appendix B-3) is reasonable and should be adopted.
4. The quantities (Appendix D) used in the preparation of this report are reasonable and should be adopted.
5. Riverview needs to update its Service Area Map and the following tariff rules and forms: Rule 3, (Application for Service) to add provision of Public Utilities Code Section 2714 regarding service to tenants; Rule 5, (Special Information Required on Forms); Rule 7, (Deposits); Rule 9, (Rendering and Payment of Bills); Rule 10, (Disputed Bills); Rule 11, (Discontinuance and Restoration of Service); Form No. 2, (Form for "Customer's Deposit Receipt"); and Form No. 3, (Form for "Bill for Service").
6. Riverview should be required to submit a feasibility report on the installation of meters on all services within 180 days of the effective date of this resolution.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code, Section 454, for Riverview Estates 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, General Metered Service; 2, Residential Flat Rate Service; and LC, Late Payment Charge. The effective date of the revised schedules shall be five days after the date of filing.
2. Riverview Estates Water Company is authorized to increase annual revenues by \$3,720, for a 25% rate of margin. This results in Test Year 2006 revenue of \$8,813.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and are adopted.
4. Riverview Estates Water Company shall study the cost effectiveness of metering all its services and the well source and report back to the Commission within 180 days of the effective date of this Resolution.

5. Riverview Estates Water Company shall update its Service Area Map and the following tariff rules and forms: Rule 3, (Application for Service) to add provision of Public Utilities Code Section 2714 regarding service to tenants; Rule 5, (Special Information Required on Forms); Rule 7, (Deposits); Rule 9, (Rendering and Payment of Bills); Rule 10, (Disputed Bills); Rule 11, (Discontinuance and Restoration of Service); Form No. 2, (Form for “Customer’s Deposit Receipt”); and Form No. 3, (Form for “Bill for Service”).
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 March 15, 2007; the following Commissioners voting favorably thereon:

/s/ STEVE LARSON

Steve Larson  
Executive Director

MICHAEL R. PEEVEY  
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

**Appendix A**  
**Riverview Estates Water Company**

**Summary of Earnings**  
**Test Year 2006**

Account Category	Utility Estimated		Division Estimated		Recommended Rates*
	Pre-interim Rates	Requested Rates	Pre-interim Rates*	Requested Rates*	
<b>Operating Revenues:</b>					
460 Flat Rate	\$ 5,093	\$ 10,200	\$ 6,184	\$ 12,156	\$ 8,813
470 Metered	-	-	-	-	-
Total	5,093	10,200	6,184	12,156	8,813
<b>Operating Expenses</b>					
610 Purchased Water				-	-
615 Purchased Power	1,303	1,303	1,367	1,367	1,367
Purchased Chemicals				-	-
618 Other Volume Related Expenses				-	-
630 Employee Labor				-	-
640 Materials	134	134	163	163	163
650 Contract Work	-	-	-	-	-
Water Testing	1,158	1,158	796	796	796
660 Transportation Expense	305	305	305	305	305
664 Other Plant Maintenance Expense	-	-	-	-	-
670 Office Salaries	158	158	158	158	158
671 Management Salaries	446	446	446	446	446
674 Employee Pension and Benefits	-	-	-	-	-
676 Uncollectibles	300	300	100	100	100
678 Office Service & Rentals	205	205	205	205	205
681 Office Supplies & Expenses	179	179	189	189	189
682 Professional Services	-	-	-	-	-
684 Insurance	2,639	2,639	2,061	2,061	2,061
688 Regulatory Commission Exp.	261	261	261	261	261
689 General Expenses	-	-	-	-	-
800 minus expenses capitalized	-	-	-	-	-
Total Operating Expenses	7,088	7,088	6,051	6,051	6,051
<b>Total Deductions</b>					
403 Depreciation	25	25	25	25	25
408 Taxes other than Income	150	150	150	150	150
Total Deductions	175	175	175	175	175
<b>Total Deductions and Expenses</b>	<b>7,263</b>	<b>7,263</b>	<b>6,226</b>	<b>6,226</b>	<b>6,226</b>
<b>Net income before taxes</b>	<b>(2,170)</b>	<b>2,937</b>	<b>(42)</b>	<b>5,930</b>	<b>2,587</b>
<b>Income Taxes</b>	<b>-</b>	<b>1,121</b>	<b>800</b>	<b>1,570</b>	<b>1,068</b>
<b>Net Revenue</b>	<b>(2,170)</b>	<b>1,817</b>	<b>(842)</b>	<b>4,361</b>	<b>1,519</b>
<b>Rate Base:</b>					
Average Plant	975	975	975	950	950
Average Depr. Res.	-	-	-	-	-
Net Plant	975	975	975	950	950
Less: Advances/Contributions	-	-	-	-	-
Add: Materials and Supplies	-	-	-	-	-
<b>Rate Base</b>	<b>975</b>	<b>975</b>	<b>975</b>	<b>950</b>	<b>950</b>
<b>Rate of Margin</b>	<b>n/a</b>	<b>25.0%</b>	<b>n/a</b>	<b>25.0%</b>	<b>25.0%</b>

\* Based on projected 17 number of customers.

**APPENDIX B-1**

**Schedule No. 1**

**GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water services.

**TERRITORY**

The area known as Riverview Estates, and vicinity, located approximately 3 miles north of Los Molinos, Tehama County.

**RATES**

Quantity Rates:

All water, per 100 cu. ft.	\$1.57	(I)
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Service Charge:

	<u>Per Meter</u>	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$27.45	(I)
For 3/4-inch meter	\$41.18	
For 1-inch meter	\$68.63	
For 1-1/2-inch meter	\$137.26	
For 2-inch meter	\$219.61	
For 3-inch meter	\$411.77	
For 4-inch meter	\$686.28	(I)

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

**SPECIAL CONDITIONS**

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

**APPENDIX B-2**

**Schedule No. 2**

**GENERAL FLAT RATE SERVICE**

**APPLICABILITY**

Applicable to all flat rate water services.

**TERRITORY**

The area known as Riverview Estates, and vicinity, located approximately 3 miles north of Los Molinos, Tehama County.

**RATES**

	<u>Per Service Connection Per Month</u>	
For each single-family residential unit, including Premises not exceeding 9,000 sq. ft. in areas	\$43.20	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection	\$21.61	(I)
b. For each 100 sq. ft. of premises in excess of 9,000 sq. ft.	\$0.54	(I)

**SPECIAL CONDITIONS**

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

**APPENDIX B-3**  
**Schedule No. LC**

**LATE PAYMENT CHARGE**

**APPLICABILITY**

Applicable to all customers.

**TERRITORY**

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

**RATES**

Late Charge: A late charge of \$5.00 on unpaid balance subject to special conditions below.

**SPECIAL CONDITIONS**

1. The balance is unpaid and subject to a late charge if the bill is past-due, or delinquent, as defined in Rule 11, Section B.1.a.
2. The late charge should be imposed only once on a delinquent bill since the account would be shut-off before a subsequent bill and then subject to the reconnection fee as authorized by Tariff Rule No. 11.

**APPENDIX C**

**Riverview Estates Water Company**

**COMPARISON OF RATES**

TEST YEAR 2006

1. Metered Rates

Riverview does not currently have any metered rate customers for comparison.

2. Flat Rates

<u>Tariff Description</u>	<u>Pre-Interim Rates</u>	<u>Recommended Rates</u>	<u>Amount of Increase</u>	<u>Percent Increase</u>
Single-family residence	\$29.75	\$43.20	\$13.45	45.2%
Each additional unit on same connection	\$14.88	\$21.61	\$6.73	45.2%
Each 100 sq. ft. of premises in excess of 9,000 sq. ft.	\$0.37	\$0.54	\$0.17	45.2%

**APPENDIX D**

**Riverview Estates Water Company**

**ADOPTED QUANTITIES**  
**TEST YEAR 2006**

Expenses:

1. Purchased power (PG&E) – Schedule A-1	
kWh used	7,059 kWh
Annual power cost	\$1,367
Composite energy cost	\$0.19368/kWh
2. Water testing fees	\$796
County Department of Environmental Health	included
3. Number of service connections	17
4. Adopted tax calculation:	
Operating revenue	\$8,813
Operating Expenses	\$6,051
Depreciation	\$25
Taxes other than income	\$150
Interest	\$0
Taxable income for state tax	\$2,587
State income tax	\$800
Taxable income for federal income tax	\$1,787
Federal income tax	\$268
California corporate franchise tax rate-minimum	\$800
Federal income tax rate – only lowest tier applies	15%