

WATER/ABJ/DON/LEP:jj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water Advisory Branch

RESOLUTION NO. W-4293
September 6, 2001

R E S O L U T I O N

(RES. W-4293), RAMONA WATER COMPANY (RWC). ORDER AUTHORIZING AN INTERIM INCREASE IN RATES, SUBJECT TO REFUND, PRODUCING ADDITIONAL ANNUAL REVENUES OF \$33,064 OR 99.8% FOR TEST YEAR 2000.

SUMMARY

By Draft Advice Letter, accepted on November 13, 2000, RWC seeks an increase in rates for water service to recover increased operating expenses and provide an adequate rate of return on its capital investment. This resolution grants an interim general rate increase, subject to refund, in gross annual revenues of \$33,064 or 99.8% for Test Year 2000. This increase will provide a 13.50% rate of return on rate base in the test year.

BACKGROUND

RWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$54,902 or 189% in 2000. RWC's request shows 2000 gross revenue of \$29,025 at present rates increasing to \$83,927 at proposed rates to produce a rate of return on rate base of 15.65%. RWC estimates that it serves approximately 79 flat rate customers and 16 Metered customers in test year 2000.

The last general rate increase became effective on March 28, 1988, pursuant to Res. No. W-3391, which authorized a rate increase of \$21,450 or 100.0% producing a negative rate of return.

NOTICE

A notice of the proposed rate increase was mailed to each customer on November 14, 2000. The Branch received one letter protesting the rate

increase. The Consumer Affairs Branch received two complaints in 1998 and three complaints in 2000. Four of the complaints were regarding quality of service and one was a billing dispute. A public meeting was held at 7 p.m. on Wednesday, December 6, 2000, at the Anza Community Building at Anza, California.

As was noted in the Memorandum of Public Meeting, by the Branch during the field trip, and by the Riverside County Health Department Representative, a study needs to be undertaken to determine the proper additions and improvements necessary to bring RWC into compliance with standards for a water system of RWC's size and type. Therefore, RWC should be ordered to hire a qualified engineer to provide such a report.

From the date the Staff's Engineer's Report was mailed to RWC in April 2001 to the middle of July 2001, RWC attempted to retain an Engineer to conduct a study and write a report as described above. No satisfactory progress has been made as yet, and RWC desperately needs the rate increase described in this Resolution. The rate increase described herein should be granted, subject to refund, while RWC continues to look for a satisfactory engineer to conduct the study and write the report. If a Contract has not been signed for the Engineering Report described herein by January 2002, RWC should be ordered to reduce rates to an amount to produce a zero rate of return.

When a contract has been signed for the Engineering Report, RWC should be authorized to file an Advice Letter to recover the cost of the Report through a surcharge. If a loan is necessary, RWC should file an Advice Letter with the Audit & Compliance Branch of the Water Division for approval of the loan.

After the Engineering Report has been completed and after a Contract has been signed to carry out the recommendations contained in the Engineering Report, RWC should be authorized to file an Advice Letter to begin recovering the principal and interest payments to pay off the loan to carry out the recommendations contained in the Engineering Report. These principal and interest amounts should be recovered as a surcharge on RWC's rates.

DISCUSSION

The Water Division's Water Advisory Branch (Branch) made an independent analysis of RWC's summary of earnings and issued its report in April 2001. Appendix A shows RWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between RWC's and the Branch's estimates in operating revenues, expenses, and rate base.

RWC's and the Branch's estimates of operating expenses differ in purchased power, materials, management salaries, office services & rent, office supplies and expenses, professional services, insurance, general expenses, and depreciation expense.

Purchased Power

Branch's estimate of purchased power is lower than RWC. Records indicate that purchased power costs have decreased since the last general rate case. Branch reviewed the power bills for the year 2000 and based its estimate on the recorded costs and usage for 2000. Branch was unable to determine energy costs for prior years because there are no records available. Branch was unable to determine how the utility arrived at its \$15,000 estimate.

Materials

Branch disallowed RWC's estimate for materials. The company does not keep any materials on hand and does not have a place for storage. In addition, their estimate was for purchase of meters. The utility was notified that only when the meters are installed and placed into service would they be reflected in rates as rate base.

Management Salaries

Branch's estimate of management salaries is lower than RWC's. Branch believes that RWC has minimal management intervention and that the situation will continue until the ownership of RWC is resolved. Branch has allowed the utility a \$200 monthly management fee.

Office Service & Rentals

Branch disallowed RWC's estimate of office services and rentals because the company does not incur any rent and the utility does not have an office.

Office Supplies and Expenses

Branch's estimate of office supplies and expenses is lower than RWC's. Branch arrived at its estimate based on the office supplies and expenses incurred in the year for which records were available, the year 1999. Branch was unable to determine how RWC arrived at its estimate. RWC did not have any financial records from 1996 through 1998, and only partial records for the year 2000.

Professional Services

Branch's estimate of professional services is higher than RWC. The company does not have any bookkeeper and consequently it is very difficult to determine revenues and expenses. In addition the company needs to prepare income tax reports, financial reports, and health and safety reports as required by regulatory agencies. RWC does not have the in-house expertise for preparation of those reports. The Branch recommends that RWC hire a bookkeeper capable of preparing the financial reports and health and safety reports required by the Commission and DHS.

Insurance

RWC currently does not have any liability insurance. Branch spoke with RWC about the need for liability insurance and RWC agreed that it was necessary but said that there were no funds to purchase the insurance. RWC agreed to purchase liability insurance when a rate increase was approved. Branch recommends the Commission find RWC's estimate for insurance reasonable. RWC should be ordered to provide evidence of having purchased a liability insurance policy. If the amount of the policy premium is different from the amount shown in the Summary of Earnings (\$800), RWC should be ordered to file an Advice Letter to adjust water rates to reflect the actual cost of liability insurance.

General Expenses

Branch's estimate of general expenses is lower than RWC. Branch arrived at its estimate by reviewing recorded 1999-2000 general expenses.

Depreciation Expense

Branch's estimate of depreciation expense is lower than RWC. Branch used a composite rate of 3%, which it believes to be reasonable for a utility of this size to determine depreciation expense. Branch was unable to determine how RWC arrived at its depreciation expense estimate.

Property Taxes

Branch reviewed RWC's estimate of property taxes and found them reasonable.

Utility Plant

Branch used the adopted utility plant in service in the last general rate case Resolution No. W-3391. The Branch did not allow any additions or retirements through test year 2001. RWC did not have a utility plant estimate.

Accumulated Depreciation

Branch's accumulated depreciation is higher than RWC. The Branch used a depreciation composite rate of 3%. RWC did not include an estimate of accumulated depreciation.

Contributions

Branch used adopted contributions in the last general rate case and adjusted them for depreciation.

Rate Base

Branch used the rate base estimate adopted in the last general case and adjusted it for accumulated depreciation and contributions.

RWC was informed of the Branch's differing views of expenses and rate base and accepts them.

RWC requested a rate of return of 15.65% for test year 2001. The Commission's Audit & Compliance (A&C) Branch recommends a rate of return range of 13.00% to 14.00% for Class D, 100% equity-financed utilities. In Decision (D.) 92-03-093 effective April 30, 1992, the Commission adopted the Operating-Ratio Method (ORM) of ratemaking as an alternate to the Return on Net-Investment (Rate base) method for Class C and Class D Utilities. Accordingly, the Branch applied these two respective methodologies to RWC. Branch found that the return on investment calculation produced a revenue requirement of \$66,192 at the rate of return of 13.5%, the midpoint of the 13.0% and the 14.0% standard rate of return recommended by the A&C Branch for a class D water utility. The ORM method using a rate of margin of 20% produced a revenue requirement of \$60,673. Therefore, per D.92-03-093, Branch recommends the rate base revenue requirement of \$66,192 using the Return on Net-Investment (Rate Base) method.

RWC's current rate structure consists of two schedules: 1, Metered Service, and 2, Flat Rate Service. All of RWC's customers are flat rate customers with the exception of fifteen metered residential customers and one metered commercial customer. The Branch applied current Commission policies to adjust rate categories accordingly. The Branch's proposed rates for the metered customers consist in 73% of its fixed costs allocated to its service charge. This is in compliance with D.92-03-093 that states: "Class D water utilities are authorized to file to recover up to 100% of fixed costs in the service charge portion of their rate design." The Branch recommends that the Flat Rate Service and the overall Metered Service be increased by the system average increase. 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.

At the Branch's recommended rates shown in Appendix B, the bill for a typical monthly flat rate residential customer would increase from \$31.00 to \$60.10, or 93.9%. The typical monthly bill for a 5/8 x 3/4-inch metered customer using 9,300 cubic-feet of water would increase from \$26.74 to \$60.37, or 125%. 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

There are no outstanding Commission orders requiring system improvements. However, there are Riverside County Health Department orders requiring system improvements.

The utility has not been filing annual reports as required. RWC needs to update Schedule LC, Rules, 5, 7, 9, 11, 20, and 21, and Forms 2 and 3.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted, subject to refund.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted, subject to refund.
3. The quantities (Appendix D) used in preparation of this report are reasonable and should be adopted.
4. RWC should be ordered to update Schedule LC (Late Payment Charge), Rules 5, (Special Information Required on Forms), 7 (Deposits), 9 (Rendering and Payment of Bills), 10 (Disputed Bills), 11 (Discontinuance and Restoration of Service), 20 (Fire Protection), and 21 (Water Conservation); Forms 2 (Customer's Deposit Receipt), and 3 (Bill for Service).
5. RWC should be ordered to hire a qualified engineer to conduct a study and prepare a report to determine the proper additions and improvements necessary to bring RWC into compliance with standards for a water system of RWC's size and type.
6. RWC should be authorized to file an Advice Letter for approval of a loan, if one is necessary, to pay for the engineer's study and report.
7. RWC should be authorized to file an Advice Letter to begin recovering the cost of the Report.
8. If a Contract has not been signed for the Engineering Report described herein by January 2002, RWC should be ordered to reduce rates to an amount producing a zero rate of return.
9. RWC should be authorized to hire a Bookkeeper capable of preparing financial reports and health and safety reports required by the Riverside County Health Department.

10. RWC's estimate of liability insurance is found to be reasonable, but RWC should be ordered to provide evidence of having purchased a liability insurance policy. If the amount of the policy premium is different from the amount shown in the Summary of Earnings (\$800), RWC should be ordered to file an Advice Letter to adjust water rates to reflect the actual cost of liability insurance.
11. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Ramona Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate schedules: 1, General Metered Service, and 2, General Flat Rate Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing. These revenues are subject to refund.
2. Ramona Water Company is ordered to update Schedule LC, Rules 5, 7, 9, 10, 11, 20, and 21; and Forms 2 and 3.
3. Ramona Water Company is ordered to hire a qualified engineer to conduct a study and prepare a report to determine the proper additions and improvements necessary to bring Ramona Water Company into compliance with standards for a water system of Ramona Water Company's size and type.
4. Ramona Water Company is authorized to file an Advice Letter for approval of a loan if one is necessary to comply with Ordering Paragraph 3.
5. Ramona Water Company is authorized to file an Advice Letter to begin recovering the cost of the report that complies with Ordering Paragraph 3.
6. If a contract has not been signed for the Engineering Report described herein by January 2002, RWC is ordered to reduce rates

to an amount to produce a zero rate of return.

7. Ramona Water Company is authorized to hire a Bookkeeper capable of preparing financial reports and health and safety reports required by the Riverside County Health Department.
8. Ramona Water Company is ordered to provide evidence of having purchased a liability insurance policy. If the amount of the policy premium is different from the amount shown in the Summary of Earnings (\$800), Ramona Water Company is ordered to file an Advice Letter to adjust water rates to reflect the actual cost of liability insurance.
9. 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 September 6, 2001; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President

HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN

Commissioners

Appendix A
Ramona Water Company
Summary of Earnings
Test Year 2001

	Estimated 2001		Utility		Exceeds %	Estimated 2001		Utility Exceeds		Staff Recommended Rates	
	At Present	Rates	Amount			At Proposed Rates		Amount	%		
Operating revenues	Staff	Utility				Staff	Utility				
Unmeter water revenue	-	27,900	23,801	(4,099)	-15%	-	80,631	70,000	(10,631)	-13%	54,090
Fire protection revenue	-	-	-	-	-	-	-	-	-	-	-
Metered water revenue	-	5,221	5,224	3	0%	-	15,332	13,927	(1,405)	-9%	12,095
Other revenue	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	33,121	29,025	(4,096)	-12%	-	95,963	83,927	(12,036)	-13%	66,185
Oper. & Maint. Exp:											
Power	-	14,000	15,000	1,000	7%	-	14,000	15,000	1,000	7%	14,000
Other volume related exp.	-	850	850	-	0%	-	850	850	-	0%	850
Employee labor	-	11,500	11,500	-	0%	-	11,500	11,500	-	0%	11,500
Materials	-	-	500	500	-	-	-	500	500	-	-
Contract work	-	1,500	1,500	-	0%	-	1,500	1,500	-	0%	1,500
Transportation expenses	-	700	700	-	0%	-	700	700	-	0%	700
Other plant maintenance	-	350	350	-	0%	-	350	350	-	0%	350
Office salaries	-	-	-	-	-	-	-	-	-	-	-
Management salaries	-	2,400	6,200	3,800	0%	-	2,400	6,200	3,800	0%	2,400
Employee pens. & benefits	-	-	-	-	0%	-	-	-	-	-	-
Uncollectibles expense	-	400	400	-	0%	-	400	400	-	0%	400
Office services & rentals	-	-	1,200	1,200	-	-	-	1,200	-	-	-
Office supplies and expenses	-	1,161	5,000	3,839	331%	-	1,161	5,000	3,839	331%	1,161
Professional services	-	3,600	1,200	(2,400)	-67%	-	3,600	1,200	(2,400)	-67%	3,600
Insurance	-	800	800	-	0%	-	800	800	-	-	800
Regulatory comm. expense	-	-	-	-	-	-	-	-	-	-	-
General expenses	-	230	1,300	1,070	-	-	230	1,300	1,070	-	230
Total operating expenses	-	37,491	46,500	9,009	24%	-	37,491	46,500	9,009	24%	37,491
Depreciation	-	9,062	14,753	5,691	63%	-	9,062	14,753	5,691	63%	9,062
Payroll tax	-	-	-	-	0%	-	-	-	-	-	-
Property tax	-	500	500	-	0%	-	500	500	-	-	500
State tax	-	800	800	-	0%	-	4,324	1,960	(2,364)	-55%	1,691
Federal income tax	-	-	-	-	-	-	6,688	3,032	(3,656)	-55%	2,616
Total deductions	-	47,853	62,553	14,700	31%	-	58,065	66,745	8,680	15%	51,360
Net Revenue	-	(14,732)	(33,528)	(18,796)	128%	-	37,898	17,182	(20,716)	-55%	14,825
Rate Base:											
Average plant	-	313,743	313,743	-	0%	-	313,743	313,743	-	0%	313,743
Average accum. dep.	-	196,991	196,991	-	0%	-	196,991	196,991	-	0%	196,991
Net plant	-	116,752	116,752	-	0%	-	116,752	116,752	-	0%	116,752
Less: Advances	-	-	-	-	-	-	-	-	-	-	-
Contributions	-	6,944	6,944	-	0%	-	6,944	6,944	-	0%	6,944
Add: Working cash	-	-	-	-	-	-	-	-	-	-	-
Material & supplies	-	-	-	-	-	-	-	-	-	-	-
Rate Base	-	109,808	109,808	-	0%	-	109,808	109,808	-	0%	109,808
Rate of Return	-	-13.42%	-30.53%	-	-	-	34.51%	15.65%	-	-	13.50%

APPENDIX B

RAMONA WATER COMPANY

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered rate water service.

TERRITORY

Anza Acres, Ramona Estates and vicinity, located approximately two miles East of Anza, Riverside County.

RATES

Quantity Rates:

All water, per 100 cu. ft.	\$3.38	(I)
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Service Charge:

Per Meter
Per Month

For 5/8 x 3/4-inch meter	\$ 28.90	(I)
For 3/4-inch meter	\$ 41.97	
For 1-inch meter	\$ 53.96	
For 1-1/2-inch meter	\$ 83.94	
For 2-inch meter	\$119.92	(I)

Service Charge is a readiness-to-serve charge which is (N)
applicable to all metered service and to which is to be (N)
added the month charge computed at the Quantity Rates. (N)

APPENDIX B

RAMONA WATER COMPANY

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Anza Acres, Ramona Estates and vicinity, located approximately two miles east of Anza, Riverside County.

RATES

Per Service Connection
Per Month

For each single-family residential unit, including premises	\$60.10	(I)
For each additional residential unit served from the same service connection ...	\$36.00	(I)

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects a meter shall be installed and service provided under Schedule No. 1, Metered Service.

APPENDIX C

RAMONA WATER COMPANY

COMPARISON OF RATES

METERED SERVICE

	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates TY 01</u>	<u>Percent Increase (Decrease)</u>
For 5/8 x 3/4-inch meter	\$10.00	\$ 28.90	189.0%
For 3/4-inch meter	\$14.00	\$ 41.97	199.8%
For 1-inch meter	\$18.00	\$ 53.96	199.8%
For 1-1/2-inch meter	\$28.00	\$ 83.94	199.8%
For 2-inch meter	\$40.00	\$119.92	199.8%
 Quantity Rates:			
All water, per 100 cu.ft.	\$1.80	\$3.38	87.8%

FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates TY 01</u>	<u>Percent Increase</u>
For a single-family residential unit, including premises	\$31.00	\$60.10	93.9%
For each additional residential unit served from the same service connection	\$18.00	\$36.00	100.0%

APPENDIX D

RAMONA WATER COMPANY

ADOPTED QUANTITIES

Test Year 2001

Offset Items

1. Purchased Power

Anza Electric Cooperative, Inc.

Effective Date September 1, 1997

Schedule A-1

Service Charge \$28.00

Charge per kWh \$ 0.12

Demand Charge per kWh over 10 kWh per month \$ 9.00

Total Cost \$14,000

Total kWh 98,190

Average Unit Cost \$/kWh \$ 0.143

2. Ad Valorem Taxes \$ 500

Service Connections

1. Meter Size

5/8 x 3/4" 15

1" 1

Total 16

Consumption (Ccf) 1,781

ADOPTED TAX CALCULATIONS

Test Year 2001

1. Operating Revenues \$66,185

2. Expenses 37,491

3. Depreciation 9,062

4. Taxes Other Than Income 500

5. Taxable Income for State Tax 19,132

6. State Tax 1,691

7. Taxable Income for FIT 17,440

Resolution W-4293
RWC/DR AL/ABJ/DON/LEP:lj

September 6, 2001