ALJ/emk/ra

ORIGINAL 10

Decision 84 07 115 JUL 18 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of Rolling Green Utilities, Inc. general rate increase for water service of 90.69% for '83, Inyo County.	Application 83-09-46 (Filed September 19, 1983)

Dean W. Knight, for applicant.
Ralph T. Asdel,1/ for himself, protestant.
Albert A. Arellano, Jr., for the Commission staff.

OPINION

Summary

In this application Rolling Green Utilities, Inc. (RGU) requests a general rate increase in water rates of $22,395, or 90.69%, for estimated year 1983. The rates were designed to yield a rate of return of 11% on RGU's estimated rate base of $64,940. The authorized increase is $14,570, or 57.29%, which provides an 11% return on the adopted rate base of $75,470.

Background

RGU, a California corporation, operates a public utility water and sewer systems and a propane gas system2/ within

1/ Asdel acted as spokesman for a group of applicant's customers. He testified and cross-examined other witnesses. Inadvertently he did not fill out an appearance slip. Due to the nature of his participation in these proceedings the Commission is treating him as an appearance.

2/ In 1979, the definition of gas plant in Public Utilities (PU) Code Section 221 was amended to exclude systems delivering propane gas service, thus terminating Commission jurisdiction over RGU's gas operations.

subdivisions[3] developed by corporations controlled by RGU's owners, Dean W. Knight and Olivia P. Knight. One of these corporations is Dean W. Knight & Sons, Incorporated (DWK). Utility services within RGU's and/or DWK's service areas have been provided since 1965.

The water rate increase sought in this application was originally filed by advice letter. After RGU's distribution of notices to customers the Commission received 24 letters and a petition containing 196 signatures protesting an increase or the magnitude of the increase, 90.69%. (RGU supplies metered water to 189 premises.) Some of the letters complained of service problems in the service area; claimed that the increase was being used to force the formation of a district to buy out RGU; contend that they could not afford increases while living on fixed incomes; characterized the increase as inflationary; and objected to this increase after RGU's 1982 water rate increase and its 100% sewer rate increase. Due to these protests the Commission docketed the advice letter as an application.

By Decision (D.) 83-03-004 dated March 2, 1983 in Application (A.) 61103, the Commission authorized the transfer of the sewer system from DWK to RGU. In Interim D.83-03-009 dated March 2, 1983 in A.60485, the Commission authorized a general rate increase in sewer rates. One of the elements of that increase was the allocation of certain payroll expenses between RGU's and DWK's water, gas, and sewer operations for a 1983 test year.

3/ RGU also provides sewer service to the Inyo County Sanitarium adjacent to the subdivisions served by RGU.

Hearings

After notice, public hearings were held in the City of Bishop. The matter was submitted subject to receipt of late-filed exhibits which have been received.

Testimony for RGU was presented by Dean Knight and his accountant. A Commission staff (staff) engineer testified on the results of his independent investigation of the need for the rate increase. There was testimony from several customers protesting the increase; one customer testified that there were frequent service outages in RGU's water system.

Results of Operations

The following tabulation shows the original estimates of RGU and of staff and the adopted summary of earnings at present rates and at authorized rates for RGU's water system. The bases for the amounts adopted are discussed in this decision.

Estimated Year 1983

Item	RGU		Staff		Adopted	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Present Rates	Authorized Rates
	(a)	(b)	(c)	(d)	(e)	(f)
Operating Revenue	$24,693	$47,088	$25,430	$47,980	$25,430	$40,000
Operating Expenses						
Oper. & Maint. Exp.	15,649	15,649	11,240	11,240	11,440	11,440
Admin. & Gen. Exp.	12,317	12,317	8,950	8,950	10,490	10,490
Well Amortization	-	-	-	-	750	750
Depreciation	1,927	7,627	3,650	3,650	3,510	3,510
Taxes Other Than Income	3,037	3,037	3,200	3,200	3,200	3,200
Income Taxes	100	1,315	200	4,700	70	2,310
Total Expenses	33,030[a/]	39,945[a/]	27,240	31,740	29,460	31,700
Net Operating Revenue	(8,337)	7,143	(1,810)	16,240	(4,030)	8,300
Rate Base	55,754	64,940	83,870	83,870	75,470	75,470
Rate of Return	(14.94)%	11.00%	(2.16)%	19.36%	(5.34)%	11.00%
Avg. No. of Customers	186	186	189	189	189	189
	(Loss)					

a/ Corrected to eliminate errors in addition by RGU.

Operating Revenues

Knight stipulated to the higher staff estimate of 189 metered customers based on later data. Both RGU and staff estimated average monthly sales per customer at 18 hundred cubic feet (Ccf) per month. Two items require discussion:

1. Since closure of a restaurant RGU has charged $30 per month for the remaining water use at a recreational facility owned by an affiliated company. The billing to this facility should be based on meter readings rather than on a flat rate.

2. In order to provide landscaping compatible with a well-kept residential area (see late-filed Exhibit 13), Knight has maintained at his own expense a rose garden and orchard on RGU's well lot adjacent to his home in exchange for a $6.50 flat rate for water use in his residence. Revenues based on metered consumption for Knight's residence and lawn and well lot gardening expense should be accounted for separately. This separate accounting may not prove to be beneficial to RGU's ratepayers, but it is consistent with RGU's tariffs. Furthermore, it would eliminate the issue of discriminatory treatment raised by RGU's customers.

The net revenue impact of billing based on meter reading for these two services would not materially affect water sales. The staff revenue estimate at present rates is reasonable and is adopted. Revenues at the rates authorized in this decision will be $40,000.

Table 1, on the next page, shows RGU's operating expense estimates contained in its application, its revised and more detailed estimates, the staff estimates, and adopted amounts. RGU's revised estimates are based on (a) Exhibit 5, annualizing nine months of recorded 1983 data; (b) further updating based on later billings received by RGU (Exhibit 12); namely, $619 for clamps used for main repairs, $77 for November 1983 water tests, which will be an ongoing requirement, and $950 for water rate case expense; and (c) RGU's testimony on some of the changed expense levels. RGU did not adequately explain some of its revised estimates. Simply recording expenses does not justify their reasonableness.

Well Amortization Allowance

Table 1 also contains an adopted amortization of $750 for property losses chargeable to operations. RGU's third well, which cost $4,454, could not be used to supply its customers because, when pumped, it produced excessive amounts of sand. In 1983 RGU moved the rarely used pumping equipment on this well to a new fourth well and capped the third well. Knight testified that he wanted to classify the capped well as plant held for future use until it was feasible to eliminate the sand problem and restore the well to service. RGU lacks a specific plan for future use of the capped well. Therefore, its cost should not be in plant accounts. Since the well capping was an extraordinary retirement, the straight-line remaining life method should not be used to book the retirement. The following excerpt from the wells account in the Commission's Uniform System of Accounts for Class A, B, and C Water Utilities (classifications based on annual revenues for utilities larger than RGU) provides

TABLE 1

Rolling Green Utilities, Inc.

OPERATING EXPENSES AND AMORTIZATION

Expenses and Amortization	RGU's Estimates Application	RGU's Estimates Revised	Staff Estimate	Adopted Amounts
Operating & Maintenance Exp.				
Power	$ 5,950	$ 4,938	$ 2,640[a]	$ 2,720
Employee Labor	7,890	6,000	6,000	6,000
Materials and Supplies	1,809	1,026	1,800	1,800
Clamps		619		
Repairs & Maintenance		448		
Contract Work				
Water Testing		924[b]		920
Subtotal O&M	15,649	13,955	10,440	11,440
Administrative & General Exp.				
Office Salaries	1,926	2,400	1,600	2,400
Management Salaries	4,500	6,000	3,740	3,000
Office Supplies and Exp.	681	605	680	680
Postage		245		
Telephone		192		
Accounting and Legal Exp.	2,406	2,267	2,010	2,410
General	2,416		880	880
Uncollectibles	348	253		
Regulatory Comm. Exp.		950		320
Vehicle	40	449	40	200
Office Rental	0	600	-	600
Subtotal A&G	12,317	13,961	8,950	10,490
Amortization of Well	-	-	-	750
Total Expenses & Amortization	27,966	27,916	19,390	22,680

a/ Revised.

b/ Based on on-going monthly expenses of $77 per month.

an explanation of the methodology RGU should have followed when it found that this well could not be utilized:

> ". . . The cost of digging wells which prove to be nonproductive or which produce water which cannot be utilized in the system shall be charged to operating expenses unless this Commission, in writing, authorizes the company to charge such costs to...Extraordinary Property Losses, and to amortize such amount over a period of years by charges to...Property Losses Chargeable to Operations."

Accrued depreciation on this well is $2,203. For ratemaking purposes, it would be reasonable to amortize the net plant value of the capped well over three years as a charge to operations. The rounded amount of this amortization is $750 per year.

Purchased Power

Both RGU's original purchased power estimate of $5,950 and its initial revision of $6,447 are based on recorded bills for pumping from two wells using pumping units later replaced with new more efficient units. Knight testified that each of the three pumping units now in service should operate at a 75% efficiency level. RGU's estimates do not include any service or energy charges at the capped well site. In order to meet the requirements of customer growth and to provide additional fire flows, RGU drilled a fourth well near the two operative wells. It moved the pumping equipment from the third well to the fourth well and placed that well in service. The initial staff estimate of $3,440 (which includes energy charges for 30,000 kilowatt-hours (kWh) was not based on current system operations.

The derivation of the staff's revised purchased power estimate (see late-filed Exhibit 10-1) is as follows: the staff estimated RGU's total water production at 105 acre-feet (AF) to include water sales of 93.7 AF[4/] plus water losses; the 105 AF produced was apportioned to the three operative wells based on the respective well production rates; energy requirements in kWh per AF of production were derived from pump tests; the sum of the products of production per well and the kWh/AF for each well were used to calculate energy charges at the Southern California Edison Company (SCE) rates in effect on October 9, 1983; energy charges for energy use of 24,420 kWh plus service charges (based on a connected load of 80 horsepower (hp) totaled $2,640.

4/ $189 \text{ customers} \times \frac{18 \text{ Ccf}}{\text{customer month}} \times \frac{12 \text{ months}}{\text{year}} \times \frac{1 \text{ AF}}{435.6 \text{ Ccf}} = \frac{93.7 \text{ AF}}{\text{year}}$

In late-filed Exhibit 11, RGU concedes that its power bill should be reduced to $4,938 due to its use of more efficient pumping equipment, but it argues that the initial staff adjustment is excessive. RGU estimates there would be a 17% savings in its electric bills due to the improvement in efficiencies of the pumping equipment in its original two wells from 58%[5/] to 75%.

RGU's recorded energy consumption for three months, using its new pumping equipment, totaled 10,530 kWh. However, RGU did not provide any sales data to correlate with that energy use. There are fluctuations in energy use based on discharge pressures and pumping water levels in each of the wells.

The staff estimates for the first two wells are based on January 1981 pump tests under normal operations. At that time discharge pressures were lower than those now maintained in the system. That consideration would increase the staff-estimated electrical consumption. But this increase is offset by underestimates of the impact of higher pumping efficiencies in the staff estimate. The revised staff estimate is the best estimate of RGU's energy requirements. The service charge should be based on the connected load of 80 hp, not the 75 hp reflected in SCE's billings. The adopted purchased power expense of $2,720 also reflects later rates, i.e. SCE rates for Schedule PA-1 as of April 1, 1984.

5/ In 1981 the efficiencies of the old pumping units were 47.0% and 58.1% under normal operating conditions.

Under our General Order (GO) 103, RGU is required to measure the production from its wells.[6/] This may be accomplished by metering the well discharge lines or by computations based on the methodology employed in SCE's well tests. If RGU follows SCE's methodology it should regularly measure discharge pressures and pumping water levels. RGU's annual electrical use was 80,330 kWh in 1981 and 62,507 kWh in 1982. It was 57,760 kWh for 11 months in 1983. The record does not show why RGU's recorded electrical consumption is far in excess of the requirements needed to deliver 105 AF to its system at its normal delivery pressures. Those high levels of electrical consumption could possibly result from substantial amounts of unbilled consumption (e.g. for construction uses), massive leaks in the system, partially closed valves, or pipeline obstructions. RGU should compare its water sales volumes and production, determine the causes of its high power bills and/or excessive water losses, and take steps to eliminate them. The large discrepancy between energy use and reasonable requirements for pumping cannot be reconciled with the energy requirements for pumping the amount of water needed to meet customer demands. The order of magnitude differences cannot be explained by increases in efficiency levels or normal fluctuations of pumping water levels or modifications in maintained service pressures. Energy requirements for a pumping unit vary directly with the total of the sum of the discharge pressure head and the pumping water level and inversely with efficiency levels. Absent any other changes, improving the pumping unit efficiency for one well from 58% to 75% would reduce energy consumption for that pumping unit by 22.7%, not the 17%

6/ RGU's 1983 Annual Report did not include the required statement of annual quantities of water pumped.

(for both units) estimated by RGU. Energy consumption for RGU's second pumping unit would be reduced by 37.3% with a change in efficiency levels from 47% to 75%.

The adopted purchased power expense provides a reasonable allowance for the energy needed to operate the water system. It does not provide for unreasonable water losses. If water is being used for construction purposes it should be billed for at filed tariff rates.

Payroll Expense

There are RGU employees who work on the water, sewer, and gas operations of RGU. One-third ($14,316) of the original estimate of payroll expenses for these employees is allocated to each utility function. Since April 1983 Olivia Knight received $1,500 per month for issuance of checks, bookkeeping, and supervision of employees; $500 of this total was allocated to water system operations. RGU modified its management salary estimate from a nine-month estimate of $4,500 to an annual estimate of $6,000, but its overall payroll dropped to $13,011. Dean Knight receives no RGU payroll checks although his duties include checking out the system for leaks and arranging for repairs. Dean Knight testified that RGU had several outages but he promptly fixed those leaks; he attributed many of those outages to his lack of knowledge of the need to anchor plastic pipe at corners with concrete thrust blocks; and that due to the lack of thrust blocks pipes shifted and broke.

The staff payroll estimate of $11,340 is premised on the witnesses' assumption that a total payroll allowance of $5 per customer per month is reasonable. Consistent with that determination, staff recommends the following reductions of RGU's estimates: operating and maintenance expense $1,890 (23.9%), office salary $326 (16.9%), and management salary $760 (16.9%). The staff witness reviewed the annual reports of two nearby water utilities to corroborate his estimate: one, a 38-customer utility, had an average payroll of $2.30 per customer per month; the second, a 108-customer utility, had no payroll. The staff witness was unfamiliar with the operations of those utilities.

Dean Knight contends that he managed RGU since its inception in 1965; RGU paid no management salaries before April 1983; his construction company activities are limited; RGU should be self-supporting and it is reasonable to charge management salaries of $500 per month to RGU's water operations; and that the staff estimates are unreasonable in not adopting recorded costs. Asdel questions any increase of expense or utility plant in rate base not backed by a formal audit. We will discuss the audit issue later.

RGU now employs a full-time field man for $1,500 per month, a part-time office worker for $600 per month, and a part-time manager for $1,500 per month. In late-filed Exhibit 13 Knight states, in part: "There is /sic/ only the two of us and we are absent a great deal of the time." Allocations of one-third of the payroll expenses for RGU's field man and office worker are reasonable. The requested management payroll allowance of $500 per month to RGU's water operations is excessive in light of the absences of the Knights from the service area. Therefore, we will reduce the requested management allocation by 50%. The total adopted payroll expense is $11,400.

Operating and Maintenance (O&M)

Materials and Supplies Expenses

RGU's original estimate of O&M materials and supplies is $1,809. Its revised estimate consists of $1,026 for supplies, $448 for repairs and maintenance, and $619 for clamps. Knight testified the clamps were used for pipeline repairs. This amount is sufficiently large to justify classification of this amount as an additional investment in water mains. The staff reviewed RGU's records and estimated a level of expenses for this account of $1,800. We adopt the staff estimate.

O&M Contract Work

Knight testified that the Inyo County Health Department would require future expenditures of $77 per month for water tests. An amount of $920 should be allowed for this expense.

Administrative and General (A&G)

A&G Office Supplies and Expenses

RGU's original estimate was $681. RGU requests adoption of estimates totaling $1,042 chargeable to Account 792 (see Uniform System of Accounts for Class D Water Utilities), namely office expenses of $605, postage of $245, and telephone expense of $192. The staff reviewed the basis of RGU's original estimate and recommends an allowance of $680. We will adopt the staff estimate of $680. RGU did not provide an adequate foundation for its updated estimates.

Accounting and Legal

RGU used 1982 recorded expenses for its original estimate. The staff normalized expenses for this account. RGU's accountant testified his charges to water operations will remain at current levels or increase in the future. He acknowledges that he should not have used federal tax depreciation rates for RGU's book depreciation and that State tax depreciation is calculated on another basis. These differences require his preparation of three financial statements for RGU.

In the future, RGU will be required to set up timecard records and material records by utility function. These requirements support our adoption of RGU's expense allowance for accounting and legal expenses at the level originally requested by RGU.

A&G General Expenses

Knight contends that until 1983 DWK absorbed expenses properly chargeable to RGU; the staff four-year average of general expenses unfairly penalizes RGU by reducing its estimate from $2,764 (including $348 in uncollectibles) to $880. RGU's revised general expense estimate consists of $253 in uncollectible expense and additional regulatory commission expense (accounting fees) of $950 for processing this application. Knight did not provide any evidence of past expenditures which had been absorbed by DWK. The staff averaging of prior expenses is reasonable. However, there should be an allowance for amortizing the additional rate case expense. We will increase the staff general expense estimate by $320 to amortize the rate case expense over our adopted three-year cycle for processing water rate cases.

Vehicle Expense

In Exhibit 3, the staff included a one-third allocation of the cost of a new pickup truck to RGU's water utility plant. Subsequently, the staff witness agreed that this allocation should be reduced to one-sixth of the cost by allocating one-half of the truck usage for the Knights' personal use and the remainder equally to RGU's water, gas, and sewer operations. The staff adopted RGU's $40 vehicle expense estimate based on 1982 expenses. The staff did not accept RGU's updated 16.7% allocation of $449 of recorded 1983 vehicle operating expense annualizing nine months of recorded data for fuel, oil, service, and licensing expense. Asdel questions any allowance for vehicle use. Prior to 1983 the Knights or their companies paid for almost all vehicle expenses required for utility purposes.

RGU is entitled to revenues to compensate it for vehicle use in utility service. It is inconsistent to allow an allocation for vehicles in utility plant and to disallow expenses for running the vehicle. Knight's testimony was contradictory on the appropriate allocation of the vehicle use for water operations. RGU has a small compact service area. We will reduce RGU's revised estimate of $449 to $200 for this expense.

Office Rental

RGU presented updated testimony showing that it is renting an office. The $600 annual proration of one-third of this expense to water operations is adopted.

Audit Expense

In A.60485 the certified public accountant (CPA) representing DWK (the prior owner of the sewer system) addressed the auditing issue as follows:

> "He brought forward the utility plant and reserve for depreciation records prepared by the CPA who had previously prepared applicant's accounting records. He made determinations of whether to expense or capitalize items pertaining to applicant's sewer operations. He believes that the amounts expended by applicant and his determinations of whether to capitalize or expense items are reasonable. He does not provide applicant with audited financial statements because his fees for providing audited statements are approximately three times as costly as providing unaudited statements. None of his clients request audited statements if they do not require them." (D.83-03-009, mimeo. p. 11.)

That CPA is a member of the same firm representing RGU in this proceeding. In this proceeding, RGU's CPA testified that he did the accounting and prepared tax returns for the Knights and for the various corporations controlled by them. He testified that RGU issued a check to pay an assessment not related to RGU's operations. However, that bill was not included in his estimates of utility expense and RGU would be reimbursed for that payment. The CPA testified he reviewed information supplied by Dean Knight to segregate utility expenditures between capital and expenses for RGU's water operations. The staff also reviewed billings related to RGU's water utility operations and capital expenditures. RGU's customers were also given the opportunity to look at RGU's water utility books and records.

If we required either audited financial statements or a management audit the additional cost would result in a substantial addition to RGU's operating expenses which could result in a further increase in water rates. An audit has not been shown to be necessary and will not be ordered.

Taxes Other Than Income

We adopt staff's estimates for taxes other than income. There is no difference on ad valorem taxes. Payroll taxes reflect our adopted payroll expenses, which are close to the staff estimate.

Income Taxes

The adopted income state and federal taxes reflect adopted revenues, operating expenses, and state and federal depreciation expense including use of the applicable tax rates and normalization of the Accelerated Cost Recovery System (ACRS) depreciation required by federal income tax law.

Utility Plant

Since the rate increase will be made effective in 1984, staff used end-of-year 1983 amounts for all elements of rate base. The higher staff estimate for utility plant in service is based on actual expenditures not available to RGU at the time RGU prepared its estimate. Included in staff utility plant estimates are $8,925 for two new 25-hp submersible replacement pumping units, $5,590 for drilling a fourth new well, $3,350 for well housing structures, and $5,743 for a one-third allocation of the $17,228 cost of the pickup truck used in RGU's water system operations.

Knight testified that RGU capitalized $3,100 per equipped well for each of its first two wells; RGU's records do not show the cost of the retired pumping equipment; in 1983, RGU's pump supplier removed the old pumping equipment from the two wells in exchange for the scrap value of the equipment.

Asdel contends all facilities and equipment needed for ultimate development of the system, including the water distribution system installed in mobile home subdivisions, should have been installed in 1965. Asdel's premises would have required RGU to install facilities in unsubdivided lands. There is no basis for expecting a utility to install all facilities ultimately required for its service area. The Commission would likely impute a saturation adjustment on distribution plant in unoccupied areas.

The staff's use of end-of-year amounts for all elements of rate base is reasonable. However, we will reduce the $111,210 staff estimate to a rounded $103,070 to delete $4,454 for the third well and reduce the $5,743 pickup truck allocation to $1,436, and to add $619 for clamps to the water main account.

Initially Knight testified that a 90% allocation of the pickup truck should be for his personal use. He later changed his estimates to equal amounts for utility and personal use. RGU has a small compact service area. We conclude that a 25% apportionment to utility use is reasonable and one-third of that amount or $1,436 should be allocated for water utility purposes.

RGU should have established separate well and pumping plant costs for each of its original wells. Under the straight-line remaining life method, RGU is required to deduct the cost of the equipment from its utility plant accounts and to deduct an equal amount from its reserve from depreciation. For rate-making purposes, these deductions offset each other. Thus we need not and will not estimate and deduct those retired pumping plant costs from RGU's utility plant and from RGU's reserve for depreciation.

Depreciation Reserve and Expense

RGU's accountant testified that he calculated depreciation on 1983 additions[6] using the ACRS method he uses for RGU's federal income taxes which requires use of short lives. The staff depreciation reserve estimate is based on end of year 1983 book depreciation based on the straight-line remaining-life method.

RGU's accountant concedes that his method is in error. However, he testified that staff's 25-year life for pumping equipment should be reduced to 15 years, based on actual service lives for retired equipment and that the staff's 40-year life for "temporary" structures used to cover RGU's wells should be reduced to 15-20 years.

6/ RGU did not put any water utility plant additions in service in 1981 or 1982.

Service lives of 15 years for pumping equipment and 20 years for structures housing well sites are reasonable and are adopted. The adopted reserve for depreciation of $25,990 reflects the impact of those adjustments to staff service lives, a $2,003 accrued reserve adjustment for the capped well and the adopted modifications of utility plant. The $1,436 vehicle allocation is depreciated over seven years. The adopted depreciation expense is $3,510.

Advances for Construction

RGU began its development in 1965. At that time the Commission authorized use of equity capital for installation of the initial in-tract facilities. But the $4,689 cost of water mains, services, and hydrants for a subsequent main extension; namely, RGU's 1977 extension to serve a mobile home subdivision should have been advanced by the developer, DWK, not paid for by RGU.

However, this advance would have been fully refunded under the provisions of RGU's then existing main extension rule if 1983 tract revenues were at the same level as 1982 revenues. Therefore, no adjustment for advances for construction is required.

Working Cash and Materials and Supplies

We will adopt the staff estimate of $1,250 for funds supplied by RGU needed to meet the lag between collection of revenues and payment of expenses and for materials and supplies needed for day-to-day operations. The staff accepted RGU's working cash estimate of $750. RGU did not include an allowance for materials and supplies.

Investment Tax Credit (ITC)

Under the provisions of the Economic Recovery Tax Act of 1981 (ERTA) RGU is exercising Option 1. Under ERTA the accumulated reserves for unamortized ITC must be treated as a rate base deduction. This deduction, based on RGU's full year 1983 plant additions, is $2,760.

Deferred Income Taxes

For post-1981 utility plant additions, an accumulative deferred tax reserve is created based on the difference between ACRS depreciation expense and book depreciation expense multiplied by the applicable tax rate(s). RGU's December 31, 1983 deferred tax reserve of $100 must be deducted from RGU's rate base.

Rate Base

The adopted rate base of $75,470 is the sum of the adopted utility plant, working cash, and materials and supplies allowances reduced by the reserve for depreciation, the reserve for unamortized ITC, and the accumulative deferred income tax reserve.

Rate of Return

Staff concurs with RGU's request for a rate of return of 11.0% on rate base. This rate of return is not unreasonable and is adopted.

Rates

At present rates RGU is receiving 44.7% of its water revenues from service charges. RGU concurs with the staff's proposal for adopting a rate schedule in conformity with a model rate structure policy calling for: (a) a service charge as contrasted to a minimum charge; (b) a lifeline allowance of 300 cubic feet per month; and (c) a second block inverted rate which is not more than 50% higher than the first block.

The following tabulation compares the rate increase percentages over the rate January 1, 1976 level when lifeline requirements for water utilities were established:

	Present Rates	RGU's Requested Rates
Total Cumulative Increases	36.2%	159.7%
Lifeline Increases	29.8	133.3
To maintain a 25% differential, the Lifeline Rate should have increased	9.0	107.8

Some of RGU's customers indicated a preference for a minimum charge-quantity charge rate. That type of rate design does not promote water use conservation. The adopted rates shown in Appendix A are in conformity with the Commission's general services water rate design.

Appendix B contains a bill comparison at various monthly consumptions at present, proposed, and authorized rates for a typical customer supplied through a 3/4-inch meter, excluding the 1½% utility user fee required to be collected by RGU. Appendix B also contains adopted quantities for test year 1983.

Past Commitments on
RGU's Water Rates

When RGU first began operations, it charged all customers in accordance with its flat rate schedule. During the 1977 drought RGU read the already-installed meters on its services at the request of the Los Angeles Department of Water and Power and of Inyo County. This meter reading led to an informal complaint to the Commission. Staff stated that RGU's billings should be based on RGU's metered rates, not on its flat rates. RGU has been billing on a metered rate since that time, with the current exceptions of services to the Knights' home and to the recreation center. Since the entire system is metered, billings should be on a metered basis and the flat rate schedule should be canceled.

Early representations by Dean Knight or his relatives (who may have been acting in capacities as sellers of lots in the service area) that there would be no increases in earlier flat rate levels either in perpetuity or for an indefinite period do not bind this Commission or require RGU to operate at a loss. RGU is entitled to request rate levels to recover its reasonable operating expenses and earn a return on its investment.

Further Discussion

In future proceedings RGU should estimate the level of its estimated revenues and expenses on a normalized ongoing basis. It should amortize extraordinary expenses over a reasonable period. This methodology combined with the use of improved records will enable RGU to better support its future proposals.

The following modification of RGU's procedures are appropriate: RGU should set up timecard records to determine expense by utility function. RGU should bill in full units of hundreds of cubic feet for all consumption in accordance with its tariffs. (In the past, RGU incorrectly rounded its meter readings. New meters and newly overhauled meters should contain registers reading in cubic feet rather than in gallons.)

Furthermore, as indicated above, RGU should take steps to measure well production, to determine the causes of its high power bills and/or excessive water losses.

Knight testified that he promptly repaired leaks which caused interruptions of service, but he did not comment on a customer complaint that the entire system was shut down for repairs; nor did he send the Commission required reports of service interruptions (GO 103, Section II.2.d.). If it is necessary to shut down the entire system for repairs, the system may not be properly segmented through installation of valves to minimize interruptions (GO 103, Section IV.3.c., d.). We will require RGU to file two copies of its system map (GO 103, Section I.10.a.). If the valve spacing is excessive, RGU should submit a plan for correcting those deficiencies. Minimizing outages are particularly important in this service area because of the high water table (averaging about four feet from the surface, according to Knight) which increases chances of contamination during shutdowns and increases the need for insuring that the facilities are properly disinfected (GO 103, Section IV.2.).

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return shown on the tabulation on page 3 of this decision are reasonable.

2. A rate of return of 11% on the adopted rate base of $75,470 is not unreasonable. This rate base is funded entirely with equity capital.

3. RGU's earnings under present rates for 1983 would produce a net operating loss of $4,030 which yields a negative rate of return of 5.34%.

4. RGU's test year earnings at authorized rates is $8,300.

5. The recorded energy use for pumping RGU's wells is excessive. RGU should determine the cause of this excessive use.

6. RGU should implement the revised procedures discussed in this decision to simplify its billings and to accurately account for the expenses of its water, sewer, and gas operations.

7. The adopted rate design equitably spreads increases to all of RGU's customers consistent with the Commission's model rate policy.

8. The increases in rates and charges authorized in Appendix A are just and reasonable; and the present rates and charges, insofar as they differ from those prescribed, are for the future unjust and unreasonable.

Conclusions of Law

1. The application should be granted to the extent provided by the following order.

2. RGU's flat rate tariff schedule should be cancelled.

3. RGU should implement the revised procedures discussed in this decision and make the filings called for in that discussion.

4. Because of the immediate need for rate relief the following order should be effective today.

O R D E R

IT IS ORDERED that:

1. Rolling Green Utilities, Inc. (RGU) shall:

   a. File the revised rate schedules in Appendix A in compliance with General Order (GO) Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 4 days after filing.

   b. Prepare, keep current, and file with the Commission's Hydraulic Branch two copies of the system map required by GO Series 103 within 90 days after the effective date of this order. If the segmentation of the system is not in conformity with GO Series 103 the study to bring the system into conformity with that requirement shall be filed within 180 days after the effective date of this order.

c. Implement revised procedures to simplify its billings and to accurately account for its expenses.

d. Review its depreciation rates at intervals of 5 years and whenever a major change in depreciable plant occurs.

e. Submit the results of each review promptly to the Commission staff.

f. File with the Commission staff a complete Schedule G, Sources of Supply and Water Developed Wells, for incorporation in its 1983 Annual Report within 45 days after the effective date of this order.

2. RGU shall cancel tariff Schedule No. 2R, Residential Flat Rate Service.

3. The application is granted as set forth above.

This order is effective today.

Dated JUL 18 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I CERTIFY THAT THIS DECISION WAS A[illegible] THE ABOVE COMMIS[illegible] TODAY.

Joseph E. Bodovitz, Executive Director

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rolling Green Terrace and vicinity, adjacent to Highway No. 395, located approximately one mile northwest of Big Pine, Inyo County.

RATES

	Per Meter Per Month	
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.	$ 0.46	(I)
Over 300 cu.ft., per 100 cu.ft.	0.57	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	$ 6.80	(I)
For 3/4-inch meter	7.50	|
For 1-inch meter	10.25	(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 monthly charge computed at the Quantity Rates. (T)

(END OF APPENDIX A)

Rolling Green Utilities, Inc.

Adopted Quantities for the Test Year 1983

1. Water Production:

Wells	45,604 Ccf

2. Purchased Power:

(Supplier: Southern California Edison, PA-1, 4/1/84)

Kilowatt-hour (kWh)	24,420 kWh
Cost	$ 2,720
Service Charge	$1/meter/mo./H.P.
Energy Charge	$0.07220/kWh
SET	$0.0002/kWh

3. Payroll:

Field employee	$\frac{\$1,500}{3}$	=	$500/mo. (O&M)	
Office secretary	$\frac{\$\ 600}{3}$	=	$200/mo. (A&G)	
Management salary	$\frac{\$1,500}{3x2}$	=	$250/mo. (A&G)	
			$950/mo. x 12 =	$11,400

4. Vehicle Expense: $ 200

Rolling Green Utilities, Inc.

Adopted Quantities for the Test Year 1983

5. Other Operating Expenses:

O&M:		
Materials	$1,800	
Contract Work	920	
A&G:		
Office supplies & expenses	680	
Accounting & legal exp.	2,410	
General expenses	880	
Regulatory Commission exp.	320	
Office rental expense	600	
	4,890	
Amortization of Well	750	
Total Operating Expense		$ 8,360

6. Taxes Other Than Income:

Payroll Taxes:		
Amount	$1,000	
Tax rate	8.8%	
Ad Valorem Taxes:		
Amount	$2,200	
Effective tax rate	1.01422%	
Total Taxes Other Than Income		$ 3,200

Rolling Green Utilities, Inc.

Adopted Quantities for the Test Year 1983

7. Net-to-Gross Multiplier: 1.30208

8. Uncollectible Rate: 0

9. Metered Water Sales Used to Design Rates:

	Range-Ccf	
Block 1	0-3	6,249 Ccf
Block 2	Over 3	35,209 Ccf
Total Usage		41,458 Ccf

10. Number of Service & Usage:

	No. of Services	Usage Ccf	Avg. Usage Ccf/Yr.
Commercial	189	41,458	219
Unaccounted Water (10%)		4,146	
Total Water Produced		45,604	

11. Number of Services by Meter Size:

Meter Size	No. of Services
5/8 x 3/4-inch	0
3/4-inch	188
1-inch	1
Total	189

Flat Rate Service - 0

APPENDIX B

Rolling Green Utilities, Inc.

Adopted Quantities for the Test Year 1983

12. Rates:

Quantity Rates:

0-3, per 100 cu.ft.	$ 0.46
Over 3, per 100 cu.ft.	0.57

Service Charges:

For 5/8 x 3/4-inch meter	$ 6.80
For 3/4-inch meter	7.50
For 1-inch meter	10.25

Tabulated below is a comparison of billings at present and proposed, and authorized rates for a typical customer supplied through a 3/4-inch meter, excluding the 1½% utility user fee required to be collected by RGU:

Usage 100 cu.ft.	Present Rates	Authorized Rates Amount	Increase Amount	Increase Percent
0	$ 5.00	$ 7.50	$ 2.50	50.0%
3	5.84	8.88	3.04	52.1
10	8.29	12.87	4.58	55.2
18 Avg.	11.09	17.43	6.34	57.2
20	11.79	18.57	6.78	57.5
50	22.29	35.67	13.38	60.0

Rolling Green Utilities, Inc.

13. Rate Base:

	Test Year 1983
Utility Plant	$103,070
Depreciation Reserve	($ 25,990)
Materials and Supplies	500
Working Cash	750
Advances	(0)
Contributions	(0)
Depreciated Rate Base	$ 78,330
Reserve for Deferred Income Tax:	
Tax Depreciation	(100)
Investment Credit	(2,760)
Rate Base	$ 75,470

(Red Figure)

Rolling Green Utilities, Inc.

Income Tax Calculation at Authorized Rates for the Test Year 1983

Item	
Operating Revenues	$40,000
Deductions:	
Opr. & Maint. Expense	11,440
Admin. & Gen. Expense	10,490
Well Amortization	750
Taxes Other Than Income	3,200
Subtotal	25,880
State Taxable Income Before Depreciation	14,120
State Tax Depreciation	5,430
State Taxable Income	8,690
State Tax @ 9.6%	840
Federal Tax Depreciation	3,510
Federal Taxable Income	9,770
Federal Tax @ 15%	1,470
Total Taxes on Income	2,310

(END OF APPENDIX B)