

Decision 87 11 021

NOV 13 1987

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Garrapata Water Company for a)
general rate increase for water)
service of 317% in Monterey County.)

Application 87-01-021
(Filed January 15, 1987)

ORIGINAL

Germino, Layne, Brodie, Runte & McGuire, by
Donald M. Layne, Attorney at law, for
Garrapata water company, applicant.
Ellie Datwyler, John S. Baker, Susan Douglas,
James D. Edinger, Bruce Eglinton, Bill
Probasco, and Brian Riddell, for themselves,
interested parties.
Lawrence O. Garcia, Attorney at Law, and Arthur
B. Jarrett, for the Water Utilities Branch.

O P I N I O N

Garrapata Water Company (Garrapata) provides water service in an area located 10 miles south of Carmel, Monterey County, and serves 1 commercial and 33 residential customers. Garrapata, a California corporation, requests a general rate increase of \$23,260, or 317% for test year 1986.

Duly noticed public hearings were held in Monterey on May 5 and 6, 1987, before Administrative Law Judge Orville I. Wright. Concurrent briefs were received from applicant and the Evaluation and Compliance Division's Water Utilities Branch (Branch) 30 days following the availability of the transcript. After reviewing the Branch's brief, Garrapata requested and was granted permission to file an answering brief. The matter was submitted on July 20, 1987.

Summary of Earnings

Applicant proposed a revenue increase of \$23,260 or 317% of 1985 income. Its total revenues of \$30,600 at proposed flat rates of \$75.00 per month for test year 1986 are not supported by a

proposed summary of earnings. Derivation of this estimate is discussed later as applicant's position.

Table 1, Summary of Earnings, is the Branch's estimated summary of earnings for the test year at present and Branch-recommended rates compared with the recorded results of operations for 1985 as shown in applicant's annual report.

At the time that this application was converted from a simplified advice letter filing for general rate increase, Branch had met with applicant and recommended an increase of approximately \$4,100 or 55.8%. This meeting, held on January 9, 1987, failed to resolve differences between staff and utility.

At the public hearing on the application, the Branch increased its estimates of expenses by \$1,500 for regulatory expense to be amortized at \$500 per year for three years, and by \$1,000 annually for insurance. Table 1 reflects Branch's revised recommendation of operating revenues of \$13,187 for the test year, an increase of 79.6% over existing rates.

Table 1

SUMMARY OF EARNINGS

<u>Item</u>	<u>1985 Recorded</u>	<u>1986 Branch Proposed Rates</u>
Number of Customers	34	34
Operating Revenues	\$ 7,344	\$13,187
<u>Deductions</u>		
Operating Expenses		
Purchased Power	4,705	2,100
Contract Work	727	1,760
Employee Labor	0	350
Management Salary	0	375
Office Supplies & Exp.	260	170
Accounting, Legal, etc.	750	770
General Expense	392	390
Transportation Expense	0	750
Regulatory Expense	0	500
Insurance	<u>0</u>	<u>1,000</u>
Total Expenses	6,834	8,165
Depreciation	1,502	881
Taxes Other Than Income	542	784
Income Taxes	<u>200</u>	<u>777</u>
Total Deductions	9,078	10,607
Net Revenue	(1,734)	2,580
<u>Rate Base</u>		
Average Plant	57,162	64,379
Average Depreciation Res.	21,691	21,798
Net Plant	35,471	42,581
Less:		
Contributions	0	18,387
Plus:		
Working Cash	682	375
Rate Base	36,153	24,569
Return on Rate Base	Loss	10.5%

(Red Figure)

Operating Expense Differences

Except for recorded 1985 data, applicant made no factual showing in opposition to staff's operating expenses estimates. For the reasons set forth below, we adopt Branch's 1986 proposed rates, expenses, and rate base as shown in Table 1.

Purchased Power

Branch conducted a detailed analysis of purchased power consumption in the applicant's service area because the utility's power costs in recent years seemed to be unreasonably high.

Based on its analysis the Branch estimated that each of the 32 residential customers consumes approximately 1,200 cubic feet of water per month, and Lots 33 (Morris-Layne Ranch) and 19 (Rocky Point Restaurant) each consume approximately 10 times that amount per month. Branch then analyzed the power it would take to deliver the water estimated above from the well source to the consumers, taking into account pump sizes, pump efficiencies, elevation differentials, distances and reasonable water loss. Branch's analysis indicated that approximately 21,000 kilowatt-hours (kWh) was a reasonable estimate of power necessary for applicant to deliver water to its 34 customers. This translated into approximately \$2,100 in power expenses based on Pacific Gas and Electric Company power rates effective March 6, 1987.

Applicant's recorded power expense in 1985 was \$4,705 based on a consumption of approximately 48,000 kWh. This conservatively translates to water consumption of 2,750 cubic feet per month for each of 32 residential customers, and 27,500 cubic feet per month each for the Morris-Layne Ranch and Rocky Point restaurant, assuming a 15% system water loss. These usages appear excessive for the type of customers the applicant serves. Applicant informed Branch that in July 1986 Garrapata repaired a substantial leak in the system. Subsequent power bills have been greatly reduced, indicating that a considerable amount of water is no longer being unnecessarily pumped because of the leak.

Branch's study of power costs took into account reasonable water usage of applicant's 34 customers, information on leak repairs, pump sizes and efficiencies, elevations and distances to arrive at its purchased power estimate for 1986 at current electric rates.

Applicant argues that Branch could not and did not precisely measure the volume of water saved by repairing leaks in the test year, and the highest annual electric bill should therefore be used to estimate future consumption.

Garrapata's argument does not comport with the fact that power bills have substantially declined in recent months following leak repairs on the system.

We adopt staff's estimate as reasonable.

Contract Work

Contract work was recorded at \$727 for 1985. Staff's estimate for 1986 is \$1,760.

Branch computed its 1986 contract work estimate by averaging applicant's recorded contract work for the last seven years and escalating it to 1986 by using the labor escalation factors recommended by the Advisory, Evaluation and Research Branch of the Evaluation and Compliance Division (RBEC). The operations and maintenance of applicant's water system is performed by an individual on a contractual basis.

Applicant presented no opposing evidence to the methodology used in developing Branch's estimate and it is accepted as reasonable.

Garrapata strenuously argues that staff failed to include the very extensive system improvements which it labels "repairs" and "maintenance." This issue is discussed in applicant's position.

Employee Labor and Management Salary

Branch states that applicant did not record a payroll in 1985, but it estimates an annual payroll in its application as follows:

Management and Bookkeeping	\$800.00 per month (minimum)
Plumbing Maintenance	200.00 per month
Electrical and Control Maintenance	100.00 per month
Daily Troubleshooting	<u>200.00</u> per month
	\$1,300.00 per month
	or \$15,600.00 per year

These figures compute to about \$38.25 payroll cost per customer per month, an excessive amount for a water utility of applicant's size, according to staff.

Branch has estimated that a combined payroll and contract work expense per customer per month of approximately \$6.10 is reasonable and would reflect a level of payroll commensurate with systems of the applicant's size and type. Based on the \$6.10 estimate, Branch has estimated employee labor and management salary of \$350 and \$375 respectively in the test year along with its estimate of \$1,760 for contract work.

Branch states that applicant utilizes the services of one of its customers to monitor the system and handle routine operational and maintenance tasks. It compensates him for his work by giving him free water service. The \$350 employee labor expense recommended by Branch in the test year is the approximate amount of this customer's annual water bill at Branch recommended rates. This free service may be discontinued as Garrapata prefers greater reliance upon contract plumbing.

Branch believes that its estimate of \$375 for management salary is not unreasonable for rate making purposes for this 34 customer system. It argues that normal management duties are

minimal, including quarterly billing at flat rates, bookkeeping, paying bills, and making periodic inspections of the system.

Applicant testified that the management salary should be \$375 per month rather than per year as it contends that there are substantial executive decisions to be made in operating the company. Garrapata also objects to staff's use of salary data from other small water companies, arguing that many of the companies are insolvent. No proof of any insolvencies was offered, however.

Employee labor and management salary costs derived from the composite actual payroll costs of other water systems of applicant's size and type is reasonable where applicant has recorded no payroll in prior years and produces no factual evidence in support of a higher estimate.

We accept Branch's estimate as reasonable.

Regulatory Expense

Branch originally made no recommendation for regulatory expense, but, at hearing, it recommended \$1,500 to be amortized over 3 years, producing \$500 in the test year. This estimate is based upon allowances made to other small water companies, and we adopt it as reasonable.

Garrapata argues that legal expense of \$10,000 had been incurred at the halfway point in these proceedings. Presumably, \$20,000 will be incurred by the close of these proceedings. This is a clearly excessive cost, given the size and circumstances of this company.

An estimate of regulatory expense based upon allowances made to similarly situated small water companies is reasonable where applicant's higher actual cost is incurred through unavailing efforts to persuade the Commission to depart from established lawful regulatory principles.

Depreciation Expense and Reserves

Staff reports that applicant has not been using the Commission's standard straight-line-remaining-life method (SLRL) to

compute depreciation accrual. Therefore, Branch reconstructed applicant's depreciation reserve from 1975 to the present using SLRL to compute depreciation accrual. Branch utilized information recorded in applicant's annual reports and information obtained directly from the utility. This accounts for the differences in the depreciation reserve, balance beginning of year, and depreciation accrual between the applicant's recorded 1985 and Branch's adjusted 1985 figures.

The major difference between applicant's recorded and Branch's adjusted depreciation expense in 1985 is applicant's not deducting depreciation on plant contributions from the total depreciation accrual, according to the Branch report.

Applicant made no showing as to depreciation expense or reserves.

In the absence of evidence to the contrary, utilization of standard Commission depreciation rates and accruals is reasonable. We adopt staff's estimates.

Other Expenses

Branch's estimates for office supplies, accounting and legal, general, insurance, and transportation expenses were derived from 1985 recorded costs and comparative costs of other similarly situated water companies. No evidence in opposition to Branch's estimates was presented, and we adopt these estimates as reasonable.

In the absence of evidence to the contrary, expense estimates based upon recorded costs of prior periods and comparative costs of other similarly situated utilities are reasonable.

Rates of Return

The Accounting and Financial Branch of the Evaluation and Compliance Division recommends a standard rate of return range of 10.25% to 10.75% for 100% equity financed water utilities. Branch

believes that 10.50%, the midpoint of this range, is reasonable for applicant.

Applicant made no showing with respect to rate of return. We adopt staff's recommendation of 10.50% as reasonable.

Applicant's Position

Applicant's case was presented by its sole shareholder and her husband, a prominent attorney in Palo Alto whose practice does not include public utility work. No effort was made by Garrapata to prepare or present a cost of service study or similar evidence in support of its application.

Having operated at a loss for years, Garrapata commenced this proceeding by seeking advice letter approval of its proposal to increase flat rates from \$18.00 to \$75.00 a month (\$100.00 if meters were to be required). While unprepared to justify the increase requested, Garrapata believed that its application would result in an audit of its records by Commission staff and a staff proposal which would probably be less than \$75.00 a month. Given the two rate proposals, applicant felt that a compromise could be negotiated acceptable to both company and Commission.

An investigation and report was made by Branch which carried a recommendation that applicant receive a general rate increase of \$4,100 or 55.8% over existing rates.

The Branch recommendation was and is regarded by applicant as "pure sophistry" since it completely disregards the utility's financial requirements.

These financial requirements include the following:

1. System improvements totaling \$90,373, being: \$32,000 for relocating an exposed water main; \$6,455 for proper foundation of a water main crossing over a river; \$16,918 for pumps and a new roof on a redwood storage tank; \$25,000 to repair an underground reservoir or replace it with a new tank.
2. Loans and advances totaling \$65,000, being: \$40,000 in loans to the corporation by its

sole shareholder over the last 5 years without Commission approval; \$17,500 borrowed for new plant construction without Commission approval; \$7,500 paid to attorneys for legal fees in prior years.

3. Unpaid legal fees of \$33,165, being: \$13,165 owing for litigation in prior years; \$10,000 legal fees incurred at the half-way point in these proceedings or, presumably, \$20,000 altogether at the close.

Applicant earnestly urges the Commission to raise rates to its 34 customers so as to allow it to recoup its losses and make the necessary system improvements (which it terms "maintenance" or "repair") within a 5-year period. The requested \$188,538 would require a monthly surcharge of approximately \$100 per customer per month in addition to the rate increase recommended by staff.

It is clear on the record that system improvements are needed. At the hearing applicant was advised to investigate whether Safe Drinking Water Bond Act (SDWBA) funds are available. SDWBA procedures are designed to assist small water companies by providing loans at low rates which are paid off through surcharges on customers' bills, thus requiring no capital to be supplied by the utility.

As Branch states, the matter of providing capital for system improvements and plant is both the business and responsibility of Garrapata.

Debts and legal expenses incurred in prior years cannot be recovered in current rates. To do so would be to engage in unlawful retroactive ratemaking.

Branch has included \$17,500 of new plant in rate base so that applicant's rate of return is, to that extent, enhanced.

Applicant's request for \$10,000 or \$20,000 legal fees for this case is discussed as regulatory expense.

Garrapata is encouraged to adopt the guidelines set forth in the Branch report and in this decision so that it may continue to provide the water service to its customers which the Branch investigation has found to be satisfactory.

Payback on Advances

Commission decision 83-03-011 ordered that \$23,000 for the two main extension contracts entered into in 1974, be recorded as contributions in aid of construction because the applicant failed to comply with Section A.2.b of its Main Extension Rule 15. Since the applicant has not complied with this order, Branch recommends that applicant be ordered to make the appropriate accounting adjustments on its books to show \$23,000 as contributions rather than advances for construction.

This recommendation will be adopted.

Service

The Branch report sets forth the following commentary on the topic of service:

"Service to customers has been satisfactory. Field investigations of applicant's service area were conducted on October 3, 20, and November 3, 1986. The domestic water pressure checked at various locations throughout the system, was within the range prescribed by the General Order No. 103.

"The distribution system has required numerous repairs for leaks and pump breakdowns over the last 3 years. The leaks and old pumps accounted for the extremely high power bills. Most of the breakdowns have been eliminated over the last 3 years by the installation of three new pumps and repair of a major leak.

"Five people were interviewed during the field investigations. There were no complaints about water service. However, they all complained about the high rates requested by applicant.

"The notice of the proposed rate increase was mailed on August 4, 1986 to the customers.

Eight letters were received in response to the notice. Seven were from individual customers and one from a lawyer representing a group of customers. All the responses objected to the 317% proposed rate increase."

The list of appearances shows that many of Garrapata's customers appeared for the public hearing on May 5, 1987. These customers testified to their concern at the prospect of the huge rate increase requested by applicant as well as to matters of water system operation.

Rate Design

As there would be a considerable cost if applicant were required to refurbish and install meters on its system, Branch recommends a new flat rate schedule to collect the adopted revenue.

It is suggested that fixed costs be allocated evenly among all 34 customers, and that the remaining revenue requirement be spread among the customers based upon the elevation of customers and their estimated water consumption.

Applicant presented no evidence on the issue of rate design.

Branch's proposal as set forth in Appendix A is reasonable and will be adopted.

Comments

Pursuant to the Commission's Rules of Practice and Procedure, the proposed decision of the assigned administrative law judge for this proceeding was filed with the Commission and distributed to the parties on September 29, 1987.

Comments were filed by Garrapata on October 6, 1987 and by staff on October 13, 1987. Our review of these comments does not persuade us that any change in the proposed decision is appropriate.

Findings of Fact

1. Garrapata Water Company (applicant) provides water service in an area located 10 miles south of Carmel, Monterey County, and serves 1 commercial and 33 residential customers.
2. Applicant is seeking authority to adjust rates for water service to increase annual revenues by approximately \$23,256.
3. The applicant requires additional revenues but the rates set forth in the application are excessive.
4. The adopted Summary of Earnings for test year 1986 setting forth operating revenues, expenses and rate base reasonably indicates the expected results of operation for the test year.
5. The increase in rates authorized by this decision is expected to provide increased annual revenues of \$5,843 and a return on rate base of 10.5%
6. A rate of return of 10.5% on applicant's rate base is reasonable.
7. The adopted rate schedules and adopted quantities used to develop the adopted summary of earnings are attached as Appendices A and B, respectively. The comparison of monthly flat rates at present and proposed rates is shown in Appendix C.
8. Applicant's service and water quality are adequate.

Conclusions of Law

1. The application should be granted to the extent provided by the following order, the adopted rates being just, reasonable and nondiscriminatory.
2. Because revenue projections and expenses were made for test year 1986, the following order should be effective the date of signature.

ORDER

IT IS ORDERED that:

1. Garrapata Water Company is authorized to file the revised schedules attached to this order as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. Garrapata Water Company shall make appropriate accounting adjustments on its books to conform with Decision 83-03-01.

3. The application is granted as set forth above.

This order is effective today.

Dated NOV 13 1987, at San Francisco, California.

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. O'HANIAN
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Weisser, Executive Director

ps

APPENDIX A

Schedule No. 2A

ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service rendered annually on a flat rate basis.

TERRITORY

Garrapata Ranch, and vicinity, located south of Carmel, Monterey County.

RATE

PER YEAR

For each residential dwelling connected below main tank, which is not specified below.....	\$ 354.00
For each residential dwelling connected above main tank and below first upper reservoir.....	\$ 401.00
For each residential dwelling connected above first upper reservoir.....	\$ 417.00
For Rocky Point Restaurant and Morris-Layne Ranch	\$ 602.00

SPECIAL CONDITIONS

1. The annual flat charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay a prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods.

2. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of the initial service, no refund of the initial annual charges shall be due the customer.

(END OF APPENDIX A)

APPENDIX B

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ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Garrapata Water Company, Inc.

Net-to-Gross Multiplier: None
 Federal Tax Rates: 15.0 %
 State Tax Rates: 9.6 %
 Business License: 0.0
 Uncollectible Rates: 0.0

Expenses Test Year 1986

1. Purchased Power:	
Electric:	
Pacific Gas and Electric Company	
Total Cost (\$)	\$ 2,100
kwh Used	20,730
Eff. Sch. Date	3/7/87
Eff. Sch. Rate (\$/kwh)	0.090415
\$/kwh Used	0.090415
Schedule	A-1
2. Purchased Water:	None
3. Pump Tax-Replenishment Tax:	None
4. Payroll and Employee Benefits:	
Operation and Maintenance Payroll	\$ 350
Administrative & General Salaries	\$ 375
	<hr/>
Total	\$ 725
Payroll Taxes	\$ 63
5. Ad Valorem Taxes:	\$ 429

Service Connections:

1. Flat Rate	
Residential	33
Commercial	1
	<hr/>
Total	34

APPENDIX B

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ADOPTED TAX CALCULATIONS¹

		: At 1986 Rates :	
:Line:		: State :	:
: No.:	Item	: Tax :	FIT :
1.	Operating Revenues	\$ 13,187	\$ 13,187
2.	O & M Expenses	5,130	5,130
3.	A & G Expenses	3,035	3,035
4.	Taxes Other Than Income	784	784
5.	Depreciation	881	881
6.	Interest	0	0
7.	State Tax	-	322
8.	Subtotal	9,830	10,152
9.	Net Taxable Income for State Tax	3,357	
10.	State Tax	322	
11.	Total State Tax	322	
12.	Net Taxable Income for FIT		3,035
13.	Federal Income Tax		455
14.	Total FIT		455

¹ Corporation

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

Comparison of monthly bills for residential and commercial customers at present and authorized rates.

<u>Flat Rate Service</u>	<u>Present Rates</u>	<u>Authorized Rates</u>	<u>Percent Increase</u>
For each residential dwelling connected below main tank, which is not specified below.	\$18.00	\$29.50	63.9%
For each residential dwelling connected above main tank and below first upper reservoir.	\$18.00	\$33.42	85.6%
For each residential dwelling connected above first upper reservoir.	\$18.00	\$34.75	93.1%
For Rocky Point Restaurant and Morris-Layne Ranch.	\$18.00	\$50.17	178.7%

(END OF APPENDIX C)

Eight letters were received in response to the notice. Seven were from individual customers and one from a lawyer representing a group of customers. All the responses objected to the 317% proposed rate increase."

The list of appearances shows that many of Garrapata's customers appeared for the public hearing on May 5, 1987. These customers testified to their concern at the prospect of the huge rate increase requested by applicant as well as to matters of water system operation.

Rate Design

As there would be a considerable cost if applicant were required to refurbish and install meters on its system, Branch recommends a new flat rate schedule to collect the adopted revenue.

It is suggested that fixed costs be allocated evenly among all 34 customers, and that the remaining revenue requirement be spread among the customers based upon the elevation of customers and their estimated water consumption.

Applicant presented no evidence on the issue of rate design.

Branch's proposal as set forth in Appendix A is reasonable and will be adopted.

Findings of Fact

1. Garrapata Water Company (applicant) provides water service in an area located 10 miles south of Carmel, Monterey County, and serves 1 commercial and 33 residential customers.
2. Applicant is seeking authority to adjust rates for water service to increase annual revenues by approximately \$23,256.
3. The applicant requires additional revenues but the rates set forth in the application are excessive.
4. The adopted Summary of Earnings for test year 1986 setting forth operating revenues, expenses and rate base reasonably indicates the expected results of operation for the test year.

5. The increase in rates authorized by this decision is expected to provide increased annual revenues of \$5,843 and a return on rate base of 10.5%

6. A rate of return of 10.5% on applicant's rate base is reasonable.

7. The adopted rate schedules and adopted quantities used to develop the adopted summary of earnings are attached as Appendices A and B, respectively. The comparison of monthly flat rates at present and proposed rates is shown in Appendix C.

8. Applicant's service and water quality are adequate.

Conclusions of Law

1. The application should be granted to the extent provided by the following order, the adopted rates being just, reasonable and nondiscriminatory.

2. Because revenue projections and expenses were made for test year 1986, the following order should be effective the date of signature.

ORDER

IT IS ORDERED that:

1. Garrapata Water Company is authorized to file the revised schedules attached to this order as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. Garrapata Water Company shall make appropriate accounting adjustments on its books to conform with Decision 83-03-01.

3. The application is granted as set forth above.
This order is effective today.

Dated _____, at San Francisco, California.