

Decision 87 11 057 NOV 25 1987

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Thomas H. Porter and Peggy A. Porter,)
doing business as "GRIZZLY PARK WATER)
COMPANY", for (a) authority to increase)
their rates and charges for water ser-)
vice in and about the community of)
Grizzly Flat in the eastern portion)
of El Dorado County, and (b) to)
borrow funds under the Safe Drinking)
Water Bond Law of 1976. (U-140-W))

Application 86-11-025
(Filed November 14, 1986)

William G. Fleckles, Attorney at Law,
for Thomas H. Porter and Peggy A. Porter,
applicants.
Carl Lischeske, Jr., for the State Department
of Health Services, Sanitary Engineering
Branch; Ron Melvin, for Water Committee; and
S. E. Gates, for himself; interested
parties.
Alberto Guerrero, Attorney at Law, and Robert
Penny, for the Water Utilities Branch.

O P I N I O N

I. Summary

This order grants to Thomas H. Porter and Peggy A. Porter, dba Grizzly Park Water Company (Grizzly Park), a revenue increase of \$26,379 (45.1%) for 1987 over present rates. It also requires a revenue decrease of \$1,323 (1.5%) for 1988 from 1987 authorized rates and a revenue decrease of \$1,351 (1.5%) for 1989 over 1988 authorized rates. Finally, it grants authority to borrow \$340,000 under the Safe Drinking Water Bond Act (SDWBA).

II. Application

Grizzly Park seeks authority to increase its gross revenue by \$58,364 or 108% in 1987 over 1986, by the further amount of \$3,631 or 3.2% in 1988 over 1987 and in 1989 a gross revenue reduction of \$229. Grizzly Park also requests authority to borrow \$340,000 under the SDWBA to convert 16,000 feet of open ditch to a 10-inch pipeline. Loan funds would also be used to improve the water treatment equipment as recommended by the Department of Health Services (DHS).

III. Staff Participation

Four different branches of the Evaluation and Compliance (E&C) Division were involved in this proceeding. The Auditing and Compliance Branch (ACB) audited the utility and did all SDWBA-related work. Advisory, Evaluation, and Research (AER) Branch recommended the labor and nonlabor escalation factors. The Accounting and Financial Branch (AF) recommended the standard rate of return range for small, all-equity water companies. The Water Utilities Branch coordinated the staff showing, made a field inspection, and covered the remaining ratemaking items, including revenues, expenses, rate base, rate design, and service. For the sake of convenience the various E&C branches will be called "staff" hereafter.

IV. Description of Company and Operations

Grizzly Park is located in the community of Grizzly Flat, about 21 miles south and east of Placerville in El Dorado County. It serves about 270 residential customers, about half-metered and half-flat rate. The service area is about five square miles and ranges in elevation from 3,700 to 4,160 feet above sea level. The

system is supplied from Eagle Ditch, a 3-mile long, open ditch which transports water from two separate sources. A turnout delivers water from Eagle Ditch to an open, 10-million gallon raw water reservoir. After chlorination, water is stored in closed reservoirs.

Eagle Ditch is an old structure, dating from the early days of development in El Dorado County. It is poorly maintained and often loses its flow to leaks. The delivery system of storage, pumps, and piping in the community of Grizzly Flat is well designed and physically well maintained for a system of this size, according to staff.

V. Procedures

Application (A.) 86-11-025 was filed on November 14, 1986. Hearings were held on June 3, 4, and 5, 1987. The matter was submitted on July 23, 1987 on receipt of transcript.

VI. Need for Rate Relief

At present rates, Grizzly Park would operate at a loss in 1987. Customer numbers are small and there is slow growth in the service area. Staff results show that Grizzly Park needs a rate increase to achieve a reasonable return on investment.

VII. Results of Operations

The staff results of operations shows that at present rates the applicant would achieve a loss in 1987, 1988, and 1989 unless revenue increases are authorized. However, the staff estimates show that the applicant does not require increases in the amounts that applicant has proposed. The following table shows

applicant's earnings at present rates and at adopted rates for 1987, 1988, and 1989.

GRIZZLY PARK WATER COMPANY

Adopted
Summary of Earnings

Test Year 1987	At Present Rates	At Adopted Rates
Operating Revenue	\$58,502	\$84,881
Expenses		
Operating Expenses	51,987	51,987
Property Tax	4,434	4,434
Payroll Tax	3,340	3,340
Depreciation	4,811	4,811
Income Tax	200	4,704
Total Expenses	64,772	69,276
Net Operating Revenue	(6,270)	15,605
Rate Base	148,624	148,624
Rate of Return	LOSS	10.50%
Test Year 1988		
Operating Revenue	\$59,847	\$85,510
Expenses		
Operating Expenses	53,100	53,100
Property Tax	4,523	4,523
Payroll Tax	3,424	3,424
Depreciation	4,811	4,811
Income Tax	200	4,551
Total Expenses	66,058	70,409
Net Operating Revenue	(6,211)	15,101
Rate Base	143,812	143,812
Rate of Return	LOSS	10.50%
Test Year 1989		
Operating Revenue	\$61,189	\$86,074
Expenses		
Operating Expenses	54,155	54,155
Property Tax	4,613	4,613
Payroll Tax	3,501	3,501
Depreciation	4,811	4,811
Income Tax	200	4,399
Total Expenses	67,280	71,479
Net Operating Revenue	(6,091)	14,595
Rate Base	139,002	139,002
Rate of Return	LOSS	10.50%

(Negative)

Operating Revenue

The application did not contain an estimate of revenues at present rates nor did applicant supply work papers showing how it arrived at its proposed revenue estimates. It did not even provide a breakdown of revenue between flat rate and metered customers.

In Decision (D.) 85-06-021 the Commission determined that rates should be based upon 293 flat-rate and metered customers in 1985 and growth of 20 customers per year for 1986 and 1987. The Commission concluded that any operational attrition beyond 1986 would be offset by the growing number of customers. New construction and new customers, however, have not developed as predicted in the last rate proceeding.

Applicant and staff agreed on the number and type of customers to be used in estimates of revenues. Flat-rate customers were held constant at 138 and metered customers were estimated at 131 in 1987, 137 in 1988, and 143 in 1989. The staff used the average water consumption from Grizzly Park's 1985 and 1986 water use tabulations of 478 cubic feet per customer per month for metered customers. Staff's revenue estimates are reasonable and properly supported; they are accepted. These estimates of revenues at Grizzly Park's proposed rates exceed Grizzly Park's estimates by \$1,432 in 1987, \$5,234 in 1988, and \$5,235 in 1989.

Operating Expenses

Staff disagreed with Grizzly Park on several expense items. The disagreements were based upon the results of the audit and review of the actual matters associated with the expense accounts. In some categories, Grizzly Park submitted values authorized in its last rate case, escalated at 3% per year, but did not provide detailed justification. Staff used its audit and its own review to establish new estimates which are often sharply different from Grizzly Park's.

The differences between Grizzly Park's and staff's estimates discussed below are for test year 1987. Staff provided labor escalation factors of 4.3% for 1988 and 4.5% for 1989. The corresponding nonlabor escalation factors are 3.7% and 3.3%. These factors are furnished by the AER Branch of the E&C Division and have been used for all water utilities since 1983. They are unchallenged and are adopted here.

On employee labor, office salaries, and management salaries, Grizzly Park's estimates were based upon adopted values from the last rate case. Staff argued that its audit showed those values to be overestimated. The audit report, however, did not show overestimation, but rather a lack of justification for allocations of expenses. Grizzly Park, in the past, had no employees. Its labor was provided by Grizzly Park's affiliate, Mountain Retreat Company. Expenses for labor were reimbursed by Grizzly Park. Beginning August 1, 1986, Grizzly Park contracted with a manager/operator for a three-year period.

Staff objected to this contract since it provided for pay higher than that ordinary for the class of licensed operator required for an operation of the size of Grizzly Park. Grizzly Park explained that it had hired, not simply a licensed operator, but the engineer who originally designed the system, Fred Strauss. Grizzly Park argued that Strauss's expertise and knowledge of the lay-out and operating design of the system increased his value to the company. An example was cited of a repair accomplished outside normal working hours in severe weather which required locating a valve that had been paved over by a careless contractor. Staff noted that Strauss was not present on the weekend of its field inspection, as required by his contract and by the DHS, and questioned whether Strauss was present enough of the time to justify his salary. Thomas Porter testified that Strauss was present to the satisfaction of Grizzly Park's management to provide the maintenance, sampling, and oversight of the system necessary

for operation. A telephone answering machine was provided for complaints and was checked regularly by Strauss. Strauss testified to his immediate intent to move to a residence in Grizzly Flat and thus increase his availability for emergencies. Staff agrees that the distribution system is well maintained.

Accordingly, Strauss's presence as an employee is an exceptional benefit to Grizzly Park. His salary should reflect this benefit, rather than standard operator's wages. Staff's reduction of Strauss's wage figure to the industry average is rejected and the contract amount submitted by Grizzly Park is accepted.

Grizzly Park and staff disagreed over transportation expenses: miles traveled and per mile allowance. Mileage figures were obscured because the record included a year during which Grizzly Park paid commuting expenses and a year during which there was no operator for several months. In addition, much of the mileage was estimated because the odometer on the truck used by Grizzly Park broke in 1984 and was not repaired. Staff normalized the portion of the record for which there were good mileage records and determined a mileage figure of 6,000 miles per year. This figure is based upon measurement, rather than estimate, and is adopted.

Grizzly Park used an allowance of \$0.35 per mile, the figure authorized in the last rate case. Grizzly Park based its argument on the fact that the access road to Eagle Ditch is a rough U.S. Forest Service dirt road that is frequently impassible to all but 4-wheel drive vehicles. The company is obliged to use a 4-wheel drive truck and must allow for the higher gasoline use of such a vehicle. Staff allowed \$0.21 per mile, justifying this cut back as the current Internal Revenue Service allowance for business. However, the standards put forth by the Internal Revenue Service can be exceeded if adequate justification is provided. Grizzly Park clearly needs to use a 4-wheel drive vehicle and

should not be forced to absorb its cost of operation. The \$0.35 per mile allowance is adopted.

Grizzly Park estimated \$3,646 for contract work: the staff estimated \$474. Grizzly Park's estimate is the adopted figure from the last rate case escalated by 3% per year. Staff's estimate included \$374 per year for water testing required by DHS. Staff estimated \$100 per year for miscellaneous services derived from average contract expenses from 1984 to 1986. Grizzly Park's estimate was not properly supported. Staff's estimate is based on recorded expense and is adopted.

Grizzly Park included office rent in the Office Supplies and Expenses item. Staff segregated office rent into its proper category and then agreed with Grizzly Park's estimates. No escalation is allowed for office rent, since it represents an allocation from Mountain Retreat Company to Grizzly Park for ratemaking purposes for occupancy of a building owned by Mountain Retreat Company. Staff's estimates of Office Supplies and Expense and Office Rent are adopted.

Staff's estimate of insurance exceeds Grizzly Park's, noting that its estimate is based on data not available to the applicant when its estimates were being prepared. Staff's insurance estimate is adopted.

Regulatory Commission Expense was erroneously classified by Grizzly Park under General Expense. In addition, Grizzly Park added an amount of \$2,000 in 1987 and \$1,000 in 1988 for expenses of the prior rate case. Additional amounts requested by Grizzly Park for the prior rate case are improper and are rejected. Staff's reclassification and estimate of Regulatory Commission Expense is adopted.

After subtracting Regulatory Commission Expense, Grizzly Park's estimates of General Expense are \$1,566 for 1987, with 3% escalations for 1988 and 1989. Grizzly Park provided no supporting work papers for its estimate. Staff estimated General Expense by

escalating from a three-year average of the utility's General Expense per customer as determined by audit. Staff's recommendation is supported by evidence and method and is adopted.

For property taxes the staff annualized fiscal year taxes it determined by audit. The annualized values for 1986 were then increased each year by 2% to reach the staff's final estimates for 1987, 1988, and 1989. The staff's estimates are only slightly higher than the company's, i.e., less than \$100 in each year. We will adopt the staff's estimates of property taxes, as follows:

1987	\$4,434
1988	4,523
1989	4,613

There was no dispute regarding the appropriate payroll tax rates to use for FICA, SUI, and FUI. These rates have been applied to our adopted payroll estimates to determine adopted payroll taxes, as follows:

1987	\$3,340
1988	3,424
1989	3,501

The staff computed income tax liabilities on the assumption that the company would be incorporated early in 1987. However, as of May 1987, when the staff report was published, the company had taken no action to alter its status.

The staff also used the 1986 tax law in computing federal income taxes. It recognized that the tax law changes adopted by Congress in 1986 may affect the company's income tax liabilities during test year 1987; but it also noted that the Commission is currently investigating the effects of those changes upon public utilities in Order Instituting Investigation (I.) 86-11-019. The staff, therefore, recommended that the old tax laws be used as the basis for taxes in this application and that the effects of the 1987 tax law changes be handled separately, as determined in

I.86-11-019. We will adopt the staff position. The adopted estimates of federal and state income taxes are:

1987 \$4,704

1988 4,551

1989 4,399

The following table summarizes our adopted operating expenses:

ADOPTED
OPERATING EXPENSES

Item	1987	1988	1989
Power	\$ 1,421	\$ 1,464	\$ 1,508
Employee Labor	24,000	24,000	24,000
Materials	1,700	1,750	1,803
Contract Work	474	478	483
Transportation	2,148	2,196	2,244
Office Salaries	5,354	5,783	6,175
Management Salaries	2,454	2,651	2,830
Uncollectible Accounts	500	500	500
Office Services & Rental	2,400	2,400	2,400
Office Supplies & Expenses	1,071	1,103	1,137
Professional Services	2,575	2,652	2,732
Insurance	5,090	5,278	5,452
Regulatory Comm Expenses	2,000	2,000	2,000
General Expenses	800	845	891
Total	\$51,987	\$53,100	\$54,155

Our adopted expenses do not include any expenses that may result from the new plant to be constructed after the SDWBA loan is granted. These expenses may not be experienced for one year or more. Grizzly Park may include them in a normal rate proceeding after placing the new SDWBA plant into service; or, if they are substantial, Grizzly Park may ask to recover them through offset procedures, as staff suggested on the record.

Rate Base

In the area of utility plant, Grizzly Park and staff generally agreed except in the entries for Reservoirs and Tanks, Meters, and Other Equipment.

Grizzly Park, with about 270 connections, has raw water reservoir with a capacity of 10-million gallons. Grizzly Park maintains that the entire reservoir was prudently constructed and should be included in rate base. Staff determined that a 3-million gallon reservoir would provide adequate storage for the present system and proposes a saturation adjustment whereby overbuilt utility plant financed with equity capital would be excluded from rate base.

The 10-million gallon reservoir was built to accommodate 1,250 connections, the planned total build-out of the development. Staff argues that if the total cost of the reservoir were to be included in equity plant, the present customers would be forced to support a plant far in excess of their present needs.

The proposed staff adjustment of \$59,606 was derived from a study submitted as Exhibit 14 in A.83-09-063, the prior rate proceeding. This study, prepared by the applicant's engineer, compares the original book costs of the present 10-million gallon reservoir to a similar 3-million gallon reservoir. Staff agrees that the study presents correct values and proposes a saturation adjustment of rate base to the smaller size reservoir cost. Staff comments that development of a larger percentage of potential lots and increase in available revenue might, in the future, justify

inclusion of the portion of the 10-million gallon reservoir they now propose to exclude.

Grizzly Park observes that the Commission has, in the past, allowed rate base treatment of structures larger than present need can justify on the grounds that it is inefficient to construct a series of smaller projects simply to keep a close time match between size of demand and size of plant. Grizzly Park further points out that the tank size is larger than that ordinarily required for a development the size of Grizzly Flat, but may be considered a reasonable precaution in light of the unreliability of the primary water source.

In this case, it is apparent that even the 3-million gallon size would be large enough to accommodate growth at the anticipated rate of six customers a year for the next 19 years. The 10-million gallon tank is large enough for 1,250 connections. The 3-million gallon tank would accommodate three-tenths as many connections or 375 connections. The present number of connections is about 270 and the assumed growth rate agreed upon by staff and Grizzly Park is six connections per year. The 10-million gallon tank should serve for the next century-and-a-half at the same growth rate. It appears unreasonable to require the present customers to support a facility sized for such a large number and such a long growth period.

Grizzly Park's argument that the present reservoir size compensates for an unreliable primary supply is unreasonable since the unreliability of the primary source is being dealt with by the pipeline, discussed below. Staff's proposed saturation adjustment is adopted.

Staff's proposed \$28 meter adjustment is the difference between Grizzly Park's estimate and the amount actually shown for this plant account in the 1986 annual report. Staff's adjustment is supported by more current data and is adopted.

Staff's proposed deletion of a \$2,174 item of Other Equipment represents the raft used to construct the 10-million gallon reservoir. The raft is no longer useful and is fully depreciated. The adjustment is adopted.

As a result of the ACB audit, staff has revised applicant's depreciation expense and reserve estimate. Applicant's estimates are inflated by items related to the 10-million gallon reservoir and by the use of a larger depreciation rate than is recommended by staff. Staff has provided a full study based upon the audit and staff recommended adjustments to plant. Its recommendations are clearly better supported than applicant's and are adopted.

In rate base, Grizzly Park requested working cash of over \$10,000 for each test year. Grizzly Park's tariff requires prepayment of both flat rate revenue and service charge for metered customers. Accordingly, Grizzly Park has the use of customer funds to pay ongoing operating costs and does not require a working cash allowance to compensate for the lag between billing and metered customer payments. Staff's deletion of the working cash allowance is adopted.

Staff observes that much of Grizzly Park's inventory of materials and supplies is not maintenance supplies such as leak clamps, but construction supplies. Construction supplies are not an operating expense. Staff's allowance of \$2,000 for materials and supplies is reasonable and is adopted.

The following table reflects the adopted rate base items discussed above.

ADOPTED RATE BASE

Item	1987	1988	1989
Average Plant	825,912	825,912	825,912
Average Depreciation Reserve	274,182	291,946	309,710
Net Plant	551,730	533,966	516,202
Less: Advances	-	-	-
Contributions	405,106	392,154	379,200
Plus: Working Cash	-	-	-
Materials & Supplies	2,000	2,000	2,000
Rate Base	148,624	143,812	139,002

VIII. Rate of Return

Applicant did not specify a requested rate of return, but its requested revenue calculation indicated a rate of 11.0%. Staff recommends a rate of 10.50%, the midpoint of the standard rate of return range (10.25% to 10.75%) recommended for small 100% equity financed water utilities by the AF Branch of E&C Division. The recommendations of the AF Branch is a reasonable match to economic conditions and the capital attraction requirements of water companies within the size classes specified. No evidence was offered to dispute such a finding in this case. No service deficiencies sufficient to justify a penalty were demonstrated. The rate of return recommended by staff is reasonable and is adopted.

IX. Service

Staff reported two major issues, absence of operator on weekends and failure to maintain Eagle Ditch. Staff notes that the DHS requires daily chlorine readings and maintenance of the filtration plant. Strauss, the present operator, is moving into the Grizzly Flat area, but some provision is needed to assure consistent availability of emergency service.

The need for maintenance of Eagle Ditch is directly tied to the DHS requirement to replace the ditch supply with a closed piped transmission system. The path of the ditch is a gradually sloping meander that follows near a contour line. The lining is clay and the entire structure must be walked regularly and maintained by hand to prevent leaks, washouts, and contamination. Grizzly Park has not provided adequate maintenance and the residents of the development have been forced to do their own patrolling and spade work to maintain a water supply. DHS is ordering installation of a pipeline. The pipeline would improve

the reliability of water transport to Grizzly Park, but would destroy Eagle Ditch as a water carrier. Staff noted that Eagle Ditch extends downstream past Grizzly Park and that there may be users downstream whose water supply will be cut off if the pipeline is installed. On one occasion, Grizzly Park drained its raw water reservoir for repairs and then diverted the entire flow of the ditch to refill the reservoir. Someone, apparently using a four-wheel drive vehicle as a tractor, tore out the diversion gate and restored flow to the lower ditch. Staff cited this incident as indication that someone downstream objected when Grizzly Park cut off residual flow in the portion of Eagle Ditch below its turnout. Grizzly Park testified that it had established water rights to the entire flow in Eagle Ditch. No representative of a downstream water user made an appearance at the hearings.

Staff does not oppose Grizzly Park's request for approval of a SDWBA loan. However, staff argues for consideration of an alternative pipeline design, an inverted siphon running from the nearer set of spring sources direct to Grizzly Park's raw water reservoir. In staff's view, this pipeline would secure a supply to Grizzly Park without cutting off maintenance and use of Eagle Ditch by other individuals downstream. Staff's suggestion does not fully answer the needs of Grizzly Park, as described. The more distant springs supplying Eagle Ditch are more reliable and are the only water source in a prolonged drought. Staff's suggestion did not consider how Grizzly Park would capture and use the flow from the more distant springs. Grizzly Park has not maintained its water supply, even while it has shown good maintenance of its treatment and distribution plant. Installation of the pipeline would provide a clean and reliable water supply. At this time, DHS has ordered installation of the pipeline, along with improvements to the water treatment plant.

X. Rate Design

At present, about half the customers are on a flat rate of \$17.50 per month. The metered rate customers pay a service charge of \$9.50 per meter per month for a 3/4-inch meter with two quantity blocks (see Page 1 of Appendix C). Grizzly Park wants to change the metered rates to a minimum charge schedule with 1,500 cubic feet minimum and one additional quantity block. The proposed metered schedule is based upon Grizzly Park's estimate of the quantity of water delivered to the average full-time user.

Staff notes that in such a rate structure, water conservers and low users subsidize larger users. It proposes to retain the service rate charge structure, which does not provide a subsidy to larger users, and to adjust the flat rate to approximately equal the overall average metered user's bill.

Grizzly Park proposes to meter all new customers and any identified water wasters. Staff and Grizzly Park agree that the cost of metering presently unmetered customers, about \$33,600, is prohibitive at this time.

The Commission, in I.84-11-041, D.86-05-064, May 28, 1986, adopted a statewide flatter rate design policy for water utilities. The provisions of that policy apply to this rate case and are followed here. The relevant policy elements are:

- a. Service charges shall be set to allow utilities to recover up to 50% of their fixed cost.
- b. Lifeline rates shall be phased out.
- c. There may be multiple commodity blocks, with the number of commodity blocks to be limited to no more than three blocks.
- d. Seasonal rates may be applied in resort areas.

The statewide goals set by D.86-05-064 are limitation of a utility's service charges to recover up to 50% of its fixed costs (as defined in the decision), to generally establish a single commodity block for metered service, and to avoid excessive rate increases at any consumption level.

The staff's recommended rates are set forth in Appendix A. These rates are reasonable and fair and take due account of the Commission's other considerations in these matters, as described above. Accordingly, the staff's recommendations are adopted. Appendix B shows the adopted quantities used for rate calculations. Appendix C compares present rates with those authorized here.

Under our adopted rates the typical residential customer, using a 3/4-inch meter and consuming 5 Ccf per month, will experience a \$10.59 (67.54%) increase, from \$15.68 to \$26.27. Flat-rate customers will experience an \$8.80 (50.29%) increase, from \$17.50 to \$26.30 per month. Residential customers and flat-rate customers are nearly equal in numbers.

Although a substantial increase is indicated for test year 1987, small decreases are expected in 1988 and 1989. This pattern is due to revenues from customer growth increasing faster than expenses from growth and inflation. Decreasing rate base each year also plays a small part.

XI. SDWBA Loan

In January 1982, Grizzly Park filed an application with the California Department of Water Resources (DWR) for a loan of \$180,000 under the SDWBA of 1976. The purpose of the loan was (1) to construct a 10-inch diameter PVC gravity flow transmission main from the presently existing Eagle Ditch to convey water from North Canyon Creek to the utility's service area and (2) to make other improvements previously recommended by DHS with respect to water treatment. Although members of the staff recommended that

Grizzly Park be permitted to incur such indebtedness and to impose long-term monthly surcharges on water customers in order to repay the loan, D.85-06-021 denied the request to borrow the funds "without prejudice."

Since D.85-06-021, DHS has formally ordered Grizzly Park to install the proposed pipeline in Eagle Ditch by October 31, 1986. Moreover, in 1987 Grizzly Park will be required to install additional filters and other water treatment improvements to meet water supply standards proposed for enactment in 1987.

Grizzly Park proposes to surcharge its customers an amount each month that will enable it to fully amortize said \$340,000 loan (including a DWR 3% administration fee) over a 20-year period.

The proposed loan will cover two major projects, both of which are required by DHS. The first project involves the conversion of Eagle Ditch to a 10" pipeline, 16,000 feet long. The estimates for this project are \$72,890 for materials and \$108,350 for installation. (Exhibit 8.) The second project involves filter plant improvements and the major items are plant housing (\$60,480), equipment (\$52,000), and miscellaneous items (\$19,500) for a total of \$132,000. Construction costs for the two projects total \$313,240. Administrative costs bring the grand total to \$340,000.

The terms of the loan are explained generally in DWR's loan commitment letter dated June 1, 1987. (Exhibit 5.) Interest will be calculated at an estimated rate of 8-1/2%. The true rate, however, will be recalculated after all SDWBA bonds are sold, and the interest rate will be adjusted at that time, if necessary. The loan contract provides for a 20-year repayment period. Under these assumptions the semiannual principal and interest payments would be about \$17,822, plus an additional accumulation of about \$1,783 semiannually to build a repayment reserve fund. The monthly surcharge for the typical residential customer with a 3/4" meter would be \$12.00. (Exhibit 10.)

It is clear that a small water company with only 270 customers cannot secure loans from conventional sources in amounts necessary to complete the improvements required by DHS. The SDWBA loan is thus the only source of funds of this magnitude available to Grizzly Park to solve the problems it is experiencing.

We conclude that the SDWBA loan should be authorized. In addition, the staff recommends that a service connection fee be established for vacant lots. That fee would be assessed at the time a lot was developed and water service sought by the developer or owner. The staff recommends that the connection fee be based upon the accumulated SDWBA monthly surcharges, up to a maximum of five years. The connection fee would not exceed \$720.00 for a typical residential customer with 3/4" meter. This is a reasonable proposal that will place some of the burden of the construction of these new facilities upon those who will be added to the system. It should be adopted.

Comments under Public Utilities Code § 311

No comments were filed by any of the parties in response to the ALJ's proposed opinion. However, one interested person, Mel E. Denney, submitted a letter to the Water Utilities Branch. The letter contains lengthy reargument of many of the issues litigated during the hearings. The letter does not focus, as our rules provide, on factual, legal, or technical errors in the proposed decision and does not make specific references to the record (Rule 77.3). Accordingly, none of the matters raised in the letter require discussion.¹

Findings of Fact

1. With the exception of the items for salary of the plant operator and per mile vehicle allowance, staff's estimates for

¹ In addition, the letter was neither tendered to nor filed with the Docket Office, nor was it timely submitted (Rule 77.2).

Revenues, Expenses, and Rate Base correctly reflect the current status and operations of Grizzly Park's system and are reasonable estimates of future performance.

2. Grizzly Park's estimate for operator salary reflects the special value of the present operator to the company, by virtue of his familiarity and expertise with the system he designed.

3. Grizzly Park's estimate for per mile vehicle allowance, in the light of the demonstrated need to use a four-wheel drive vehicle, is reasonable.

3. The middle of the staff's recommended rate of return range, 10.50%, is appropriate to a 100% equity water company of this size and quality of operation.

4. The rates in Appendix A are in accord with Commission policy as set forth in D.86-05-064.

5. The increases in rates and charges authorized by this decision are justified and are just and reasonable.

6. The proposed water system improvements are needed to produce a healthy reliable water supply.

7. The SDWBA loan provides low-cost capital for the needed water system improvements and is a prudent means of acquiring an estimated \$340,003, including a 3% administrative charge by DWR.

8. The rate surcharge will increase Grizzly Park's annual gross revenues by approximately \$39,208 and increase the water rates by approximately \$12.00 per month for an average residential customer with larger meter capacities increased proportionately.

9. It is reasonable to establish a service fee, based upon the current surcharge, payable at the time of connection for vacant or undeveloped lots.

10. The following maximum services fees are reasonable: \$720 for a 3/4" meter, \$3,840 for a 2" meter. These fees represent a five-year accumulation of the SDWBA surcharge.

Conclusions of Law

1. Staff's recommendations, with the exception of the items for salary of the plant operator and per mile vehicle allowance, for Revenues, Expenses, and Rate Base should be adopted.
2. Grizzly Park's recommendations for salary of the plant operator and for per mile vehicle allowance should be adopted.
3. 10.50% should be the allowed rate of return.
4. The rates in Appendix A should be adopted.
5. If Grizzly Park receives approval for its SDWBA loan, it may apply to adjust its rates as necessary to reflect any needed adjustments to its operating and maintenance expenses.
4. Because of the immediate need for additional revenues, this order should be effective today.
5. The rate surcharge established to repay the SDWBA loan should last as long as the loan. The surcharge payment should not be intermingled with other utility charges.
6. The utility plant financed through this SDWBA loan should be permanently excluded from rate base for ratemaking purposes.
7. The SDWBA surcharge should be placed in effect beginning March 1, 1988 to meet the initial payment due in January 1989.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Grizzly Park Water Company (Grizzly Park) is authorized to file revised Schedule No. 1A - Metered Service and Schedule No. 2AR - Flat Rate attached to this order as part of Appendix A. Such filing shall comply with General Order 96-A. The effective date of such filing shall be 5 days after filing. The revised schedules shall apply to service rendered on or after the effective date hereof.
2. Grizzly Park is authorized to borrow \$340,000 from the State of California, Department of Water Resources (DWR), to

execute the proposed loan contract and to use the proceeds for the purposes specified in the application.

3. Grizzly Park shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made to the fiscal agent. The balancing account shall be reduced by payment of principal and interest to DWR and by any charges for the services of the fiscal agent. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Grizzly Park.

4. Plant financed through Safe Drinking Water Bond Act of 1976 loan shall be permanently excluded from rate base for ratemaking purposes.

5. Grizzly Park shall file with the Commission Advisory and Compliance Division a copy of the loan contract with DWR, and a copy of the agreement with the fiscal agent, within 30 days after these documents have been executed.

6. On or after the effective date of this order, Grizzly Park is authorized to file Schedule No. 3, Service Surcharge attached to this order as part of Appendix A. Such filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall apply to service rendered on or after March 1, 1988.

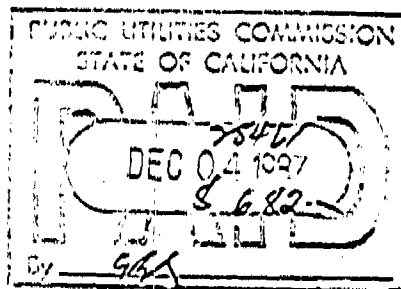
7. A.86-11-025 is granted as set forth above.

The authority granted by this order to issue an evidence of indebtedness and to execute a loan contract will become effective when the issuer pays \$682, set by Public Utilities Code Section 1904(b). In all other respects, this order is effective today.

Dated NOV 25 1987, at San Francisco, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



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

Victor Weiss
Victor Weiss, Executive Director

APPENDIX A
Page 1

ADOPTED RATES

GRIZZLY PARK WATER COMPANY

Schedule No. 1A

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Grizzly Park Development Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9, and Grizzly Park Estates, and adjacent service area, located near Grizzly Flats, El Dorado, County, about 22 miles east-southeasterly of Placerville, California.

RATES

Service Charge

Per Meter Per Month

	1987		1988	1989
For 3/4-inch meter.....	\$12.12 (I)		\$11.97 (R)	\$11.81 (R)
1-inch meter.....	16.53 '		16.32 '	16.11 '
1-1/2-inch meter.....	22.04 '		21.76 '	21.48 '
2-inch meter.....	29.75 '		29.38 '	29.00 '
3-inch meter.....	55.10 '		54.40 '	53.70 '
4-inch meter.....	74.93 (I)		73.99 (R)	73.03 (R)

Quantity Rates

For all water delivered, per 100 cu.ft	\$2.83 (I)	\$2.79 (R)	\$2.74 (R)
---	------------	------------	------------

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 at the Quantity Rates.

APPENDIX A
Page 2
Schedule No. 2AR
FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Grizzly Park Development Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9, and Grizzly Park Estates, and adjacent service area, located near Grizzly Flats, El Dorado, County, about 22 miles east-southeasterly of Placerville, California.

RATES

Per Service Connection
Per Month

	1987	1988	1989
For a single-family residential unit including premises	\$26.30 (I)	\$25.91 (R)	\$25.53 (R)
For each additional single-family residential unit on the premises and served from the service connection.	\$13.15 (I)	\$12.95 (R)	\$12.76 (R)

APPENDIX A
Page 3
Schedule No. 3 *

SERVICE SURCHARGE

APPLICABILITY

Applicable to all water service.

TERRITORY

Grizzly Park Development Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9, and Grizzly Park Estates, and adjacent service area, located near Grizzly Flats, El Dorado County, about 22 miles east-southeasterly of Placerville, California.

RATES

Metered Service Surcharge

	Per Meter Per Month
For 3/4-inch meter	\$ 12.00
1-inch meter	20.00
1-1/2-inch meter	40.00
2-inch meter	64.00
3-inch meter	200.00
4-inch meter	400.00

Flat Rate Service Surcharge

	Per Service Connection Per Month
For a single-family residential unit including premises	\$ 12.00
For each additional single-family residential unit on the premises and served from the same service connection	6.00

This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 87-11-057.

APPENDIX A
Page 4
Schedule No. 3

SERVICE SURCHARGE

SPECIAL CONDITIONS

1. A service connection fee to provide for reduction of the SDWBA loan surcharges is chargeable to customers requesting service to undeveloped lots within the service area as it existed on November 25, 1987. ✓
2. The service connection fee shall be accumulated total of the monthly surcharge provided for in Schedule 3, as applied to the property being furnished water service from November 25, 1987 to the date of connection. ✓

3. The maximum service connection fee shall be:

3/4-inch meter	\$ 720.00
1-inch meter	1,200.00
1-1/2-inch meter	2,400.00
2-inch meter	3,840.00
3-inch meter	12,000.00
4-inch meter	24,000.00

For 3/4-inch flat rate 720.00

4. The service connection fee shall be due and payable upon connection of water service to the lot. The surcharges authorized by the Commission, as contained in the utility's filed tariffs, will apply thereafter.
5. The monthly surcharge established by the Public Utilities Commission in Decision 87-11-057 is subject to periodic adjustment. The calculation of the accumulate surcharges shall take into account such periodic adjustments. ✓

(END OF APPENDIX A)

APPENDIX B
Page 1
ADOPTED QUANTITIES

Name of Company: Grizzly Park Water Company

Net-to-Gross Multiplier:	N/A
Federal Tax Rate:	15.0%
State Tax Rate:	9.6%
Local Franchise Tax:	0.0%
Uncollectible Rate:	0.0%
Business Licenses:	0.0%

Expenses:

Test Year

	1987	1988	1989
1. Purchased Power (Electric) Pacific Gas & Electric Company			
Total Cost	\$1,421	\$1,464	\$1,508
kWh Used	11,294	11,727	12,170
Schedule & Effective Date	A-1:3/87	A-1:3/87	A-1:3/87
\$/kWh Used	\$0.09926	\$0.09926	\$0.09926
Power Cost	\$1,121	\$1,164	\$1,208
Customer Charge	\$300	\$300	\$300
2. Purchased Water	None	None	None
3. Pump Tax - Replenishment Tax	None	None	None
4. Payroll:			
Employee Labor:	\$24,000	\$24,000	\$24,000
Management Salaries:	\$2,454	\$2,651	\$2,830
Office Salaries:	\$5,354	\$5,783	\$6,175
Total	\$31,808	\$32,434	\$33,005
Payroll Taxes:	\$3,340	\$3,424	\$3,501
5. Ad Valorem Taxes	\$4,434	\$4,523	\$4,613
Tax Rate	1.0067	1.0067	1.0067
Assessed Value	\$440,449	\$449,290	\$458,230
Metered Sales Used to Design Rates (Ccf)	16,140	16,500	16,860
Connections Used to Design Rates			
Metered			
3/4 inch	130	136	142
1 inch	1	1	1
Flat	138	138	138
Total	269	275	281

APPENDIX B
Page 2

Grizzly Park Water Company

ADOPTED QUANTITIES

ADOPTED TAX CALCULATIONS

Item -----	(1987 Test Year)	
	@ Adopted Rates -----	
	CCFT -----	FIT -----
OPERATING REVENUES	\$84,881	\$84,881
O&M EXPENSES	51,987	51,987
TAXES OTHER THAN INCOME	7,774	7,774
TAX DEPRECIATION	4,811	4,811
INTEREST	0	0
CCFT	0	1,950
SUB-TOTAL DEDUCTIONS	64,572	66,522
STATE TAXABLE REVENUE	20,309	-
CCFT AT 9.6%	1,950	-
FED. TAXABLE REVENUE	-	18,359
FIT AT 15%	-	2,754
TOTAL INCOME TAX	-	4,704
..		
	(1988 Test Year)	
	CCFT -----	FIT -----
OPERATING REVENUES	\$85,510	\$85,510
O&M EXPENSES	53,100	53,100
TAXES OTHER THAN INCOME	7,947	7,947
TAX DEPRECIATION	4,811	4,811
INTEREST	0	0
CCFT	0	1,887
SUB-TOTAL DEDUCTIONS	65,858	67,745
STATE TAXABLE REVENUE	19,652	-
CCFT AT 9.6%	1,887	-
FED. TAXABLE REVENUE	-	17,765
FIT AT 15%	-	2,665
TOTAL INCOME TAX	-	4,551

APPENDIX B
Page 3

Grizzly Park Water Company

ADOPTED QUANTITIESADOPTED TAX CALCULATIONS

Item -----	(1989 Test Year)	@ Adopted Rates -----
	CCFT -----	FIT -----
OPERATING REVENUES	\$86,074	\$86,074
O&M EXPENSES	54,155	54,155
TAXES OTHER THAN INCOME	8,114	8,114
TAX DEPRECIATION	4,811	4,811
INTEREST	0	0
CCFT	0	1,823
SUB-TOTAL DEDUCTIONS	67,080	68,903
STATE TAXABLE REVENUE	18,994	-
CCFT AT 9.6%	1,823	-
FED. TAXABLE REVENUE	-	17,171
FIT AT 15%	-	2,576
TOTAL INCOME TAX	-	4,399

(END OF APPENDIX B)

APPENDIX C
Page 1

Grizzly Park Water Co.

COMPARISON OF RATES
(1987 Test Year)

A comparison of present and adopted rates is shown below.

METERED SERVICE

Service Charge:		Per Meter Per Month	
		Present Rates	Adopted Rates
		-----	-----
For	3/4-inch meter	\$9.50	\$12.12
	1-inch meter	13.00	16.53
1	1/2-inch meter	17.30	22.04
	2-inch meter	23.30	29.75
	3-inch meter	43.20	55.10
	4-inch meter	58.70	74.93

Quantity Rates:

First 300 cf, per 100 cf	\$1.02	-
Over 300 cf, per 100 cf	1.56	-
For all water, per 100 cf	-	\$2.83

FLAT RATE SERVICE

For a single-family residential unit including premises	\$17.50	\$26.30
For each additional single-family residential unit on the premises and served from the same service connection	8.75	12.95

APPENDIX C

Page 2

Grizzly Park Water Co.

COMPARISON OF BILLS
(1987 Test Year)

A comparison of monthly customer bills at present and Branch's recommended rates for 1987 test year for a 3/4-inch meter is shown below:

METERED SERVICE

Usage 100 cu.ft.	Present Rates	Adopted Rates	Amount Increase	Percent Increase
0	\$9.50	\$12.12	\$2.62	27.58%
3	12.56	20.61	8.05	64.09%
5	15.68	26.27	10.59	67.54%
6	17.24	29.10	11.86	68.79%
7	18.80	31.93	13.13	69.84%
10	23.48	40.42	16.94	72.15%
15	31.28	54.57	23.29	74.46%
20	39.08	68.72	29.64	75.84%
30	54.68	97.02	42.34	77.43%
40	70.28	125.32	55.04	78.32%
50	85.88	153.62	67.74	78.88%

FLAT RATE SERVICE

For a single-family residential unit including premises	\$17.50	\$26.30	8.80	50.29%
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For each additional single-family residential unit on the premises and served from the same service connection	8.75	12.95	4.20	48.00%
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(END OF APPENDIX C)

execute the proposed loan contract and to use the proceeds for the purposes specified in the application.

3. Grizzly Park shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made to the fiscal agent. The balancing account shall be reduced by payment of principal and interest to DWR and by any charges for the services of the fiscal agent. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by Grizzly Park.

4. Plant financed through Safe Drinking Water Bond Act of 1976 loan shall be permanently excluded from rate base for ratemaking purposes.

5. Grizzly Park shall file with the Commission a copy of the loan contract with DWR, and a copy of the agreement with the fiscal agent, within 30 days after these documents have been executed.

6. On or after the effective date of this order, Grizzly Park is authorized to file Schedule No. 3, Service Surcharge attached to this order as part of Appendix A. Such filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall apply to service rendered on or after March 1, 1988.

APPENDIX A
Page 3
Schedule No. 3 *

SERVICE SURCHARGEAPPLICABILITY

Applicable to all water service.

TERRITORY

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RATES

Metered Service Surcharge

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4-inch meter	400.00

Flat Rate Service Surcharge

Per Service Connection
Per Month

For a single-family residential unit including premises \$ 12.00

For each additional single-family residential unit on the premises and served from the same service connection 6.00

This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 87 11 057.

* New Schedule

APPENDIX A
Page 4
Schedule No. 3

SERVICE SURCHARGE

SPECIAL CONDITIONS

1. A service connection fee to provide for reduction of the SDWBA loan surcharges is chargeable to customers requesting service to undeveloped lots within the service area as it existed on _____.
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3. The maximum service connection fee shall be:

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For 3/4-inch flat rate	720.00

4. The service connection fee shall be due and payable upon connection of water service to the lot. The surcharges authorized by the Commission, as contained in the utility's filed tariffs, will apply thereafter.
5. The monthly surcharge established by the Public Utilities Commission in Decision 87 11 057 is subject to periodic adjustment. The calculation of the accumulate surcharges shall take into account such periodic adjustments.

(END OF APPENDIX A)