

AUG 11 1988

Decision 88 08 020 AUG 10 1988

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )	
of BIG BASIN WATER COMPANY, a )	Application 86-10-030
Partnership, for Authority to )	(Filed October 14, 1986;
Increase Rates. )	amended January 15, 1987
_____ )	and December 10, 1987)

John D. Reader, for Big Basin Water Company, applicant.  
Clifford L. Bowen, for Department of Health Services, and Walter M. Carlson, for Big Basin Water Committee, interested parties.  
Kathleen Kiernan-Harrington, Attorney at Law, and Martin Bragen, for Water Utilities Branch.

OPINION

This is an application in which Big Basin Water Company (Big Basin), a partnership, seeks authority to increase its rates for water service.

A duly noticed public hearing was held in this matter by Administrative Law Judge (ALJ) Donald B. Jarvis in Santa Cruz on March 1, 1988. The matter was submitted subject to the filing of transcript which was received on April 1, 1988.

The ALJ filed his proposed decision on June 30, 1988, which was mailed to the parties on July 5, 1988. No comments have been filed.

I. Description of System

Big Basin provides water service to about 500 customers in an unincorporated area in and around the Boulder Creek Country Club in the San Lorenzo Valley. Water has been obtained from wells and springs until recently when the Department of Health Services ordered the discontinuance of the spring sources because much of this water could not be filtered for customers at higher elevations. Service is rendered through over 88,000 feet of

pipelines with 447,000 gallons of storage in five wood and steel tanks and one million-gallon reservoir.

## II. Preliminary Considerations

The application requested that a portion of Assessor's Parcel 83-251-71 be relieved of public utility status and its value deducted from plant in service. It was alleged that this land was no longer necessary or useful in Big Basin's operations.

During the hearing testimony was adduced which indicated that portions of the land sought to be withdrawn from the utility were necessary and useful to its operations. In the light of this testimony, Big Basin withdrew its request and the matter will not be further considered in this decision.

## III. Position of the Parties

### A. Big Basin

Big Basin contends that it has been operating at a loss since 1978 and is entitled to additional revenue. It seeks proposed rates which yield operating revenues of \$162,850 for the test year 1988. Big Basin asserts that these rates would give it a rate of return on rate base of 10.5%.

### B. Water Utilities Branch (Branch)

Branch agrees that Big Basin is entitled to an increase in rates but disagrees with the amount requested. It controverts certain estimates made by Big Basin. Branch contends that the rates sought by Big Basin would give it a rate of return of 22.9%.

### C. Big Basin Water Committee (Committee)

The Committee indicated that it supported the position of Branch.

D. Department of Health Services

The Department of Health Services appeared for the purpose of providing relevant information about the water system.

IV. Material Issues

The material issues presented in this proceeding are:

- (1) Is Big Basin entitled to an increase in rates? (2) If Big Basin is entitled to a rate increase, what is the appropriate amount? (3) Should Big Basin be authorized to include in rate base a parcel of land alleged to have been inadvertently omitted?

V. Discussion

Big Basin and Branch used 1988 as the test year for purposes of this proceeding. At present revenues, Big Basin's estimate shows a loss of \$30,890 for the test year. Branch's estimate shows a loss of \$19,332. It is clear that Big Basin is entitled to an increase in rates. (Lyon & Hoag v Railroad Commission (1920) 183 Cal. 145.) The question is one of magnitude.

A. Operation and Maintenance  
(O&M) Expenses

1. Power

Big Basin's estimate for purchased power is \$30,000. Branch's estimate is \$33,235. Branch's estimate is based on more recent Pacific Gas and Electric Company's (PG&E) power schedules and will be adopted.

2. Employee Labor, Contract Work,  
Office Salary, and Management Salary

These items are intertwined and will be considered together.

Decision (D.) 87-10-074 authorized Big Basin to enter into a contract with the California Department of Water

Resources (DWR) for a Safe Drinking Water Bond Act (SDWBA) loan. Big Basin wants to hire a part-time manager capable of setting up and overseeing the necessary records and controls required of a public utility water company and separate records of SDWBA plant, surcharge revenues, trust funds, and payments from and to DRW.

In addition, one of Big Basin's partners, Kermit A. McGranahan (McGranahan), has been in charge of operating the utility. At the time D.87-10-074 was filed, McGranahan was 76 years old. McGranahan wants to turn over the utility's operations to others. Big Basin proposes to hire a manager who would supervise the construction of the SDWBA improvements, while working with McGranahan and the present contract employee to learn the details of the operation of the water system. Eventually he would take over all management of the water and sewer systems. Big Basin seeks \$14,400 for the proposed new manager (office salary) and \$7,200 for McGranahan (management salary) for a total of \$21,600. Big Basin proposes that when the manager is capable of operating the utility by himself, and McGranahan withdraws from its operations, the entire amount would be paid to the manager. Big Basin contends that, because of the duties and responsibilities, the hourly rate paid the manager should be greater than that paid to the utility's contract employee who operates the system. Big Basin also argues that the \$2,630 Branch has allocated for McGranahan's management services is an insult. It states that he is available every working day for at least 5 hours and has had to cope with all the problems of customer inquiries, the direction of the work of the contract employee, paying the bills, and providing the funds for this utility which is constantly operating at a loss. When the SDWBA improvements are installed, the manager will be responsible for the operation and maintenance of almost \$2 million of utility plant. Big Basin asserts that many utilities with 2,000 customers do not have as much plant.

Branch contends that the \$2,630 allocated for McGranahan's management services is adequate. It estimated employee labor at \$16,800 based on the need for additional operations and maintenance labor needed for the new SDWBA improvements. Branch also takes the position that a water company of Big Basin's size needs only one manager for both its day-to-day operations and its long-term planning. It asserts if the management functions of Big Basin are taken over by the proposed additional person, the present manager's pay can be diverted to the new manager-laborer as part of his compensation.

Branch also considered the salary needs for a part-time office person, assuming that the work would no longer be done by a relative of McGranahan. Based on the assumption that any work related to the SDWBA program would be reimbursed by the SDWBA loan, Branch concluded that a half-time office employee would be sufficient for the balance of the work. Based on current rates for capable and experienced office employees in Santa Cruz, as determined from the California Employee Development Department, Branch estimated \$9,600 for an office employee. Branch asserts it is recommending adoption of expenses for employee labor and office salary in excess of what is presently being spent because of additional maintenance and construction required by the California Department of Health Services. The additional maintenance and the post-construction recordkeeping will require higher costs for employee labor and office salary.

The staff allocation for management salary is too low. Considering the duties performed by McGranahan, Big Basin's estimate is more reasonable and will be adopted.

McGranahan, who is 76 years old, should be permitted to step down from the active management of Big Basin. To do this, it is reasonable for Big Basin to hire an employee who will take over management and assist in its operations. If McGranahan steps down it is reasonable to allocate the management salary to the salary

component of the new employee. We find Branch's estimate of \$9,600 for a new employee to be reasonable and it will be adopted. This will make available a total of \$16,800 for the part-time manager sought by Big Basin. The Commission also finds that if the money allocated for a new employee is not utilized for that purpose it should be refunded to Big Basin's ratepayers.

The staff's estimate of \$16,800 for employee labor is reasonable and will be adopted. The parties are in agreement that \$33,780 is a reasonable estimate for contract work and it will be adopted.

3. O&M Materials

The parties agree that \$7,410 is a reasonable amount for O&M materials and that amount will be adopted.

4. Vehicle Expense

The parties agree that \$5,960 is a reasonable estimate for vehicle expense and it will be adopted.

5. Employee Benefits

The parties agree that no amount should be allocated for employee benefits and none will be estimated.

6. Office Services and Rental

McGranahan presently rents part of his home to Big Basin as an office for \$200 per month. Big Basin asserts that it is in the process of changing to a corporate status in accordance with the provisions of D.87-10-074. It contends that it needs an office to which customers can come, the contract employee can use to make his reports, and the manager can use to direct activities. Big Basin estimates \$500 per month for the rental of an office and \$200 a month for necessary office equipment, for an annual expense of \$8,400.

Branch acknowledges that the Commission generally allows actual, reasonable expenses for office services and rental.

It contends that until an appropriate location is secured and equipment obtained, the estimate should be based on the present situation. It estimates \$2,510 for the test year.

It is reasonable for Big Basin to have an office with adequate equipment. If McGranahan is to step down from managing the utility, it is appropriate to remove its office from his home. In the absence of actual experience, we find that \$300 per month would be reasonable for office services and rental. For the test year \$3,600 is a reasonable estimate.

7. Office Supplies

Big Basin seeks an amount of \$4,000 for office supplies. It contends that the transition to a corporate form of business justifies this amount.

Branch contends that it does not see how doing substantially the same activities under a corporate name should require additional supplies. Based on current costs, Branch estimates the amount needed for office supplies to be \$2,300. Branch's estimate is more reasonable than Big Basin's and will be adopted.

8. Professional Services

The parties agree that \$3,100 is a reasonable estimate for professional services and that amount will be adopted.

9. Insurance

Big Basin estimated \$990 for insurance. Branch's estimate is \$1,260 because it takes into consideration additional costs for Workers' Compensation insurance in connection with increased employee labor. The adopted amount of \$1,292 is higher than the Branch estimate due to higher management salary.

10. Regulatory Expense

Big Basin estimated regulatory expense at \$4,640, based on a three-year allocation. Included in the total amount was \$3,300 for attorney's fees.

Branch's estimate was \$2,440. It excluded from the total the \$3,300 for attorney's fees because it said there was no evidence of attorney work in this proceeding.

Big Basin's consultant testified that attorney John Lyons had prepared the original application and first amendment in this proceeding as well as representing Big Basin in other matters. Lyons indicated that \$3,500 of his billings related to his work on this matter. In the circumstances, Big Basin's estimate is more reasonable than Branch's and it will be adopted. ✓

11. Uncollectibles

The parties agree that \$250 is a reasonable estimate for uncollectibles and it will be adopted.

12. General Expense

The parties agree that \$370 is a reasonable estimate for general expense and it will be adopted.

13. Summary

The following is a summary of the O&M expenses adopted for this application:

Operation and Maintenance Expenses  
Test Year 1988

Item	Applicant	Branch	Adopted
Power	\$ 30,000	\$ 33,235	\$ 33,235
Employee Labor	13,200	16,800	16,800
O&M Materials	7,410	7,410	7,410
Contract Work	33,780	33,780	33,780
Vehicle Expense	5,960	5,960	5,960
Office Salary	14,400	9,600	9,600
Management Salary	7,200	2,630	7,200
Employee Benefits	0	0	0
Office Services and Rental	8,400	2,510	3,600
Office Supplies	4,000	2,300	2,300
Professional Services	3,100	3,100	3,100
Insurance	990	1,260	1,292
Regulatory Expense	4,640	2,440	4,640
Uncollectibles	250	250	250
General Expense	<u>370</u>	<u>370</u>	<u>370</u>
<b>Total Expenses</b>	<b>\$133,700</b>	<b>\$121,645</b>	<b>\$129,537</b>



**B. Taxes**

**1. Taxes Other Than Insurance**

Both parties estimated 1988 property tax at \$2,240. This amount is adopted. Big Basin estimated payroll taxes at \$2,720. The Branch's higher estimate included amounts for increased labor and office salary. The adopted amount of \$3,704 for payroll tax is higher than the Branch estimate as a result of higher adopted management salary. The total of all adopted taxes other than income taxes is \$5,944.

**2. Income Taxes**

Based upon the rates authorized in this decision, the Federal Tax Reform Act of 1986, and the corresponding state rates for 1988, the Commission finds \$3,614 to be a reasonable estimate for income taxes.

**C. Depreciation Expense**

The parties agree that \$2,030 is a reasonable estimate of depreciation and that amount will be adopted.

**D. Rate Base**

The parties are in agreement as to the amount for rate base except for one item. Big Basin contends that portions of its water system properties have been inadvertently omitted from rate base. It alleges that the value of this land is \$22,885 and seeks to have it added to the \$115,850 amount, upon which the parties agree.

Branch argues that Big Basin has not established that the disputed property is not already in rate base, and, if it is omitted, the value placed on it is not correct.

"Where there has been an appropriate record, the Commission has allowed adjustment of plant accounts for acquired property. (PG&E (1947) 47 CRC 156.)" (Application of Kitchen, D.85-06-132 in Application 85-04-029, dated June 21, 1985.) The problem in this proceeding is that there is conflicting evidence upon which a finding ought not to be made. If utility property has

been inadvertently omitted from rate base, fairness indicates that it should be included. In the circumstances, we will deny the request to include the portions of Big Basin's system here involved in rate base in this proceeding without prejudice. If Big Basin can produce more definitive evidence it may do so in a subsequent proceeding.

**E. Rate of Return**

The parties agree that a rate of return on rate base of 10.5% is appropriate. This is reasonable and will be adopted.

No other points require discussion. The Commission makes the following findings and conclusions.

**F. Adopted Quantities**

The quantities upon which the adopted results are based are shown in Appendix B.

The increased rates authorized by this decision would result in an overall revenue increase of \$43,290 or 39.4%. The bill of a typical customer with a 5/8 x 3/4-inch meter using 7 ccf per month would increase by \$6.70 per month or 46.8%.

**Findings of Fact**

1. Big Basin is a water corporation as defined in Public Utilities Code § 241 and subject to the jurisdiction of the Commission. At the time the application was filed and at the time of hearing, Big Basin was a partnership owned by McGranahan and Dr. Mahlon McPherson. In D.87-10-074 the Commission authorized the transfer of the partnership assets to Big Basin Water Company, Inc., a California corporation formed in October of 1984. Although the fee required by D.87-10-074 was paid, the transfer of assets to the corporation has not yet been completed.

2. At presently authorized rates Big Basin would have a negative return on rate base for the test year 1988.

3. Branch's estimate for purchased power, which is based on more recent PG&E power schedules, is more reasonable than Big Basin's.

4. Big Basin's estimate for management salary gives proper recognition to the duties performed and time spent by McGranahan in managing the water system and is more reasonable than Branch's.

5. Branch's estimate for office salary, which is based on current California Employee Development Department statistics, is more reasonable than Big Basin's.

6. It is reasonable to require Big Basin to refund to customers the amount allocated for office salary if it is not actually used for that purpose.

7. Branch's estimate for employee labor takes into consideration additional construction and needs of the system and is more reasonable than Big Basin's.

8. It is reasonable for Big Basin to have an office with adequate equipment. The sum of \$3,600 is a reasonable estimate for office services and rental for the test year.

9. Branch's estimate for office supplies, which is based on current experience, is more reasonable than Big Basin's.

10. Branch's estimate for insurance, which takes into consideration additional costs for Workers' Compensation insurance in connection with increased employee labor, is more reasonable than Big Basin's.

11. Big Basin's estimate of regulatory expenses, which includes attorney's fees billed and paid in connection with this proceeding, is more reasonable than Branch's.

12. Branch's estimate for payroll taxes, which includes amounts for increased labor and office salary, is more reasonable than Big Basin's.

13. Based upon the rates authorized in this proceeding, \$3,614 is a reasonable estimate for income taxes.

14. There is not sufficient evidence in this proceeding to include in rate base the alleged portions of the water system which Big Basin contends have inadvertently been omitted.

15. The sum of \$115,860 is a reasonable estimate of Big Basin's rate base for the test year.

16. A rate of return of 10.5% on rate base is reasonable for the test year.

17. The following results of operations are reasonable for the test year 1988:

Test Year 1988

Operating Revenues	\$153,290
Operation & Maintenance Expense	37,185
Administrative & General Expense	32,352
Taxes Other than Income	5,944
Depreciation Expense	2,030
Income Taxes	3,614
Total Expenses & Deductions	141,125
Net Return	12,165
Depreciated Rate Base	115,850
Rate of Return	10.5%
Average Number of Customers	517

18. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future, unjust and unreasonable.

19. Since Big Basin is operating at a loss, it is reasonable that this decision become effective on the date of issuance.

Conclusions of Law

1. The estimates for the test year found to be reasonable should be adopted.

2. The results of operations set forth in Finding 17 should be adopted for the test year 1988 and used in establishing the rates authorized in this proceeding.

3. Big Basin's request to include in rate base portions of the water system alleged to have been inadvertently omitted from plant should be denied without prejudice.

4. Big Basin should be authorized to file the revised water rates set forth in Appendix A.

5. If any portion of the money allocated for office expense is not used or not used for that purpose, that portion should be refunded to Big Basin's customers on a pro-rata basis.

ORDER

IT IS ORDERED that:

1. Big Basin Water Company (Big Basin) is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order 96-A. 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 the effective date of the revised schedules.

2. Big Basin's request to include in rate base portions of the water system allegedly omitted from plant is denied without prejudice.

3. If any portion of the money allocated for office expense is not used or not used for that purpose, Big Basin shall refund that portion to its customers on a pro-rata basis.

This order is effective today.

Dated AUG 10 1988, 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 Weissor, Executive Director

APPENDIX A  
Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Big Basin and vicinity, Santa Cruz

RATES

Monthly Quantity Charges:	Per Meter	
	<u>Per Month</u>	
For all water delivered, per 100 cu. ft.....	\$ 1.90	(I)

Annual Service Charges	Per Meter	
	<u>Per Month</u>	
For 5/8 x 3/4-inch meter.....	7.64	(I)
For 3/4-inch meter.....	9.00	
For 1-inch meter.....	11.50	
For 1-1/2-inch meter.....	16.00	(I)
For 2-inch meter.....	20.00	
For 3-inch meter.....	40.00	

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.

APPENDIX A  
Page 2

Schedule No. 2

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable only to flat rate residential water service furnished as of May 1, 1985.

TERRITORY

Big Basin and vicinity, Santa Cruz.

RATES

Per Service Connection  
Per Month

All existing flat rate connections where meters have not been located..... \$ 20.00 (I)

SPECIAL CONDITIONS

1. The above flat rates apply only to a service connection not larger than one-inch in diameter.

2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day. (T)

(D)

(END OF APPENDIX A)

APPENDIX B  
Page 1ADOPTED QUANTITIES  
1988 Test Year  
Page 1

Name of Company: Big Basin Water Company

Net-to-Gross Multiplier:	1.297
Federal Tax Rate:	15.00%
State Tax Rate:	9.30%
Uncollectible Rate:	0.16%

Expenses

1. Purchased Power (Electric) Pacific Gas & Electric Co. Total Cost	\$ 33,235
Schedule and Effective Date:	A-1:7/1/87
kWh used:	
Winter	71,079
Summer	119,697
\$/kWh used:	
Winter	.08297
Summer	.10096
Schedule and Effective Date:	A-10:7/1/87
kWh used:	
Winter	83,591
Summer	77,168
\$/kWh used:	
Winter	.06630
Summer	.08403
2. Payroll:	
Employee Labor	\$ 16,800
Management Salary	7,200
Office Salary	<u>2,600</u>
Total	\$ 33,600
Payroll Taxes	\$ 3,704
3. Ad Valorem Taxes	\$ 2,240

Service Connections:

1. Metered	511
2. Flat	<u>6</u>
Total	517



APPENDIX B  
Page 2ADOPTED QUANTITIES  
1988 Test YearAdopted Tax Calculations

Item	@ Adopted Expenses and Rates	
	CCFT	FIT
OPERATING REVENUES	\$153,290	153,290
O&M EXPENSES	129,537	129,537
TAXES OTHER THAN INCOME	5,944	5,944
TAX DEPRECIATION	2,030	2,030
CCFT	0	1,467
SUB-TOTAL DEDUCTIONS	137,511	138,978
STATE TAXABLE REVENUE	15,779	--
CCFT AT 9.3%	1,467	--
FEDERAL TAXABLE REVENUE	--	14,312
FIT AT 15%	--	2,147
TOTAL INCOME TAX	--	\$ 3,614

## ADOPTED RATE BASE

Average Plant	\$1,007,960
Average Depreciation Reserve	225,694
Net Plant	782,276
Less: Advances	0
Contributions	686,226
Plus: Working Cash	19,300
Materials	500
Rate Base	115,850

(END OF APPENDIX B)

Decision \_\_\_\_\_

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