

Decision 89 02 018 FEB 8 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of the Dunsmuir Water Corporation)
for a general rate increase for)
water service of 20.6 percent in)
1988 and 4.5 percent in 1989 in)
its Dunsmuir District.)

FEB 10 1989

Application 88-01-013
(Filed January 14, 1988)

In the Matter of the Application)
of Dunsmuir Water Corporation,)
for authority to borrow \$110,000.)

Application 87-09-020
(Filed September 15, 1987)

John D. Reader and Willis Thompson, for Dunsmuir
Water Corporation, applicant.
Daniel J. Corrigan, for the State Department of
Health Services, Public Water Supply Branch,
and Jim Arata, for the City of Dunsmuir,
interested parties.
Hallie Yacknin, for the Commission Advisory and
Compliance Division, Water Utilities Branch.

OPINION

Summary

This decision authorizes an increase of \$35,095 (21.2%) in test year 1989. Excluding Safe Drinking Water Bond Act (SDWBA) charges, this decision would increase the monthly bill for an average Dunsmuir Water Corporation (applicant) customer with a 5/8 x 3/4-inch meter using 10 hundred cu.ft. (Ccf) from \$9.71 to \$11.76. However, since we have also terminated the SDWBA surcharge (\$3.60 for a 5/8 x 3/4-inch meter), the net effect will be a decrease in total monthly charges from \$13.31 to \$11.76.

We have adopted applicant's estimates for employee labor and transportation expense. We have also accepted applicant's contention that the tank should be accounted for as rate base rather than as a constructive SDWBA loan; this will eliminate the

"Imputed Interest" expense in the expense table below, but will increase depreciation expense, plant, rate base, and return. We have, however, adopted the staff's lower estimate for the cost of the tank. This and other reductions in claimed rate base have been adopted because of deficiencies in applicant's records.

With respect to management salaries, we have adopted applicant's estimate, which was based on the amount adopted in the last general rate case, Decision (D.) 82-06-018, supra.

We have decided that SDWBA surcharge ought to be terminated unless or until it becomes apparent that applicant is committed to replace other parts of its system using SDWBA financing. The disposition of the accumulated past surcharges will be the subject of a separate decision in the financing application.

The rate design adopted, as both staff and applicant intended, moves toward conformity with current Commission policy, and generally speaking with the recommendations of the consumer who spoke on the subject. Full conformity was not possible because of our reluctance to impose a disproportionate share of the increase on any class of customer.

Applicant serves about 1,100 customers in the City of Dunsmuir (City) between Red Bluff and Yreka on Route 5. It has another district serving about 300 customers in Fort Jones, southeast of Yreka. Applicant's stock is owned, and the company is managed, by two local residents, Mr. Thompson and Mr. Adams. The principals are also partners in a backhoe and construction company which performs services for the utility.

This application began as an advice letter, seeking a gross increase of \$93,750 or 57.1%; this increase was to be offset by dropping the company's SDWBA surcharge.¹ The net increase would have been \$33,830.

¹ The amount of the surcharge varies in proportion to meter size. The average household pays \$3.60 per month; about \$60,000 is collected each year.

The Commission staff recommended that the advice letter be converted to an application and heard in conjunction with the companion Fort Jones matter (now Application (A.) 88-01-013), and with a pending financing application, A.87-09-020. The figures shown under the "Applicant" column in the tables below are those which appear in the joint comparison exhibit. They do not reflect the additional adjustment which would adjust the rate of return to either the 11% originally sought or to the 10.5% which applicant recognizes as reasonable.

In the financing proceeding, A.87-09-020, Dunsmuir seeks permission to substitute long-term debt for some of its existing all-equity capital structure by approving a loan from the corporation's stockholders.

Since 1977 the Commission has authorized increases in rates totaling approximately 92%, including the surcharge. The last general rate increase was authorized by D.82-06-018 in A.61150; the surcharge was authorized by D.85-12-013 in A.85-06-017.

An informal consumer meeting was held in Dunsmuir on January 26, 1988, with staff, Department of Health Services, and utility representatives attending. Some 80 customers were present. Questions from the audience were answered to clarify the history and proposals for the surcharge and the intent of the rate increase. There were comments on the proposed rate design, seeking relief for the elderly and for Dunsmuir Recreation District. Many comments indicated that the proposed rates were too high for a community with a large number of retired residents and an ample water supply.

The Commission has also received an unusual amount of correspondence on this matter. There were nearly 400 letters protesting the amount of the increase. Of these, 373 were form letters.

Hearing was held on a consolidated record with A.88-10-013 in Fort Jones and Dunsmuir on July 26, 28, and 29 before Administrative Law Judge (ALJ) Gilman. The matter was submitted for decision on August 30 after the filing of a late-filed exhibit. None of the parties elected to file briefs. The financing proceeding was assigned to accompany the rate cases on October 7, 1988.

The tables below compare the end-of-hearing position of applicant and staff on ratemaking issues.

TABLE 1-1

DUNSMUIR WATER CORPORATION
Dunsmuir DistrictSUMMARY OF EARNINGS
Test Year 1988
Present Rates

<u>Item</u>	<u>Applicant</u>	<u>Difference</u>	<u>Staff</u>	<u>Difference</u>	<u>Adopted</u>
Revenue	\$164,910	\$ 0	\$164,910	\$ 0	\$164,910
Employee					
Labor	40,540	(2,330)	38,210	2,330	40,540
Transp.	7,205	(5,723)	1,482	5,723	7,205
Mgmt.					
Salary	16,780	(11,711)	5,069	11,711	16,780
Imputed					
Interest	0	11,460	11,460	(11,460)	0
Other					
O&M	<u>65,015</u>	<u>4</u>	<u>65,019</u>	<u>0</u>	<u>65,015</u>
Total O&M	129,540	(8,300)	121,240	8,300	129,540
Deprec.	22,420	(9,050)	13,370	3,590	16,960
Prop. Tax	4,300	110	4,410	0	4,410
P/R Tax	5,150	(330)	4,820	330	5,150
Inc. Tax	<u>800</u>	<u>2,940</u>	<u>3,740</u>	<u>(1,710)</u>	<u>2,030</u>
Total Deduct.	162,210	(14,630)	147,580	10,510	158,090
Net Revenue	2,700	14,630	17,330	(10,510)	6,820
Avg. Plant	940,780	(304,710)	636,070	124,163	760,233
Avg. Dep. Res.	486,675	(65,205)	421,470	3,593	425,063
Net Plant	454,105	(239,505)	214,600	120,570	335,170
Less Contrib.	67,920	9,100	77,020	0	77,020
Advances	580	0	580	0	580
Plus W.C.	19,260	0	19,260	0	19,260
M&S	5,080	0	5,080	0	5,080
Rate Base	409,945	(248,605)	161,340	120,570	281,910
Rate of Return	0.6%	-	10.74%	-	2.42%

(Red Figure)

TABLE 1-2

DUNSMUIR WATER CORPORATION
Dunsmuir DistrictSUMMARY OF EARNINGS
Test Year 1988
Proposed Rates

Item	Applicant	Difference	Staff	Difference	Authorized
Revenue	\$247,000	\$ (11,530)	\$258,530	\$ (61,430)	\$194,454
Employee					
Labor	40,540	(2,330)	38,210	2,330	40,540
Transp.	7,205	(5,723)	1,482	5,723	7,205
Mgmt.					
Salary	16,780	(11,711)	5,069	11,711	16,780
Imputed					
Interest	0	11,460	11,460	(11,460)	0
Other					
O&M	<u>65,015</u>	<u>4</u>	<u>65,019</u>	<u>(4)</u>	<u>65,015</u>
Total O&M	129,540	(8,300)	121,240	8,300	129,540
Deprec.	22,420	(9,050)	13,370	3,590	16,960
Prop. Tax	4,300	110	4,410	0	4,410
P/R Tax	5,150	(330)	4,820	330	5,150
Inc. Tax	<u>22,370</u>	<u>12,290</u>	<u>34,660</u>	<u>(23,220)</u>	<u>8,794</u>
Total Deduct.	183,780	(5,280)	178,500	(11,000)	164,854
Net Revenue	63,220	16,810	80,030	(50,430)	29,600
Avg. Plant	940,780	(304,710)	636,070	124,163	760,233
Avg. Dep. Res.	486,675	(65,205)	421,470	3,593	425,063
Net Plant	454,105	(239,505)	214,600	120,570	335,170
Less Contrib.	67,920	9,100	77,020	0	77,020
Advances	580	0	580	0	580
Plus W.C.	19,260	0	19,260	0	19,260
M&S	5,080	0	5,080	0	5,080
Rate Base	409,945	(248,605)	161,340	120,570	281,910
Rate of Return	15.4%	-	49.60%	-	10.50%

(Red Figure)

TABLE 2-1

DUNSMUIR WATER CORPORATION
Dunsmuir DistrictSUMMARY OF EARNINGS
Test Year 1989
Present Rates

Item	Applicant	Difference	Staff	Difference	Adopted
Revenue	\$165,610	\$ 0	\$165,610	0	\$165,610
Employee					
Labor	42,360	(2,358)	40,002	2,358	42,360
Transp.	7,205	(5,646)	1,559	5,646	7,205
Mgmt.					
Salary	17,770	(12,462)	5,308	12,462	17,770
Imputed					
Interest	0	11,460	11,460	(11,460)	0
Other					
O&M	<u>67,875</u>	<u>(1)</u>	<u>67,874</u>	<u>1</u>	<u>67,875</u>
Total O&M	135,210	(9,007)	126,203	9,007	135,210
Deprec.	22,420	(8,660)	13,760	3,592	17,352
Prop. Tax	4,970	(520)	4,450	0	4,450
P/R Tax	5,340	(310)	5,030	310	5,340
Inc. Tax	<u>160</u>	<u>2,390</u>	<u>2,550</u>	<u>(1,800)</u>	<u>925</u>
Total Deduct.	168,100	(16,107)	151,993	11,109	163,277
Net Revenue	(2,490)	16,107	13,617	(11,109)	2,333
Avg. Plant	940,780	(282,070)	658,710	124,165	782,875
Avg. Dep. Res.	509,370	(72,790)	436,580	8,181	444,761
Net Plant	431,410	(209,280)	222,130	115,984	338,114
Less Contrib.	63,090	18,110	81,200	0	81,200
Advances	460	0	460	0	460
Plus W.C.	20,070	0	20,070	0	20,070
M&S	5,080	0	5,080	0	5,080
Rate Base	393,010	(227,390)	165,620	115,980	281,600
Rate of Return	(Loss)	-	8.22%	-	0.83%

(Red Figure)

TABLE 2-2

DUNSMUIR WATER CORPORATION
Dunsmuir DistrictSUMMARY OF EARNINGS
Test Year 1989
Proposed Rates

Item	Applicant	Difference	Staff	Difference	Authorized
Revenue	\$258,200	\$ (10,610)	\$268,810	\$ (65,590)	\$200,705
Employee					
Labor	42,360	(2,358)	40,002	2,358	42,360
Transp.	7,205	(5,646)	1,559	5,646	7,205
Mgmt.					
Salary	17,770	(12,462)	5,308	12,462	17,770
Imputed					
Interest	0	11,460	11,460	(11,460)	0
Other					
O&M	<u>67,875</u>	<u>(1)</u>	<u>67,874</u>	<u>1</u>	<u>67,875</u>
Total O&M	135,210	(9,007)	126,203	9,007	135,210
Deprec.	22,420	(8,660)	13,760	3,590	17,350
Prop. Tax	4,970	(520)	4,450	0	4,450
P/R Tax	5,340	(310)	5,030	310	5,340
Inc. Tax	<u>23,610</u>	<u>13,830</u>	<u>37,440</u>	<u>(26,140)</u>	<u>8,785</u>
Total Deduct.	191,550	(4,667)	186,883	(13,233)	171,135
Net Revenue	66,650	15,277	81,927	(52,357)	29,570
Avg. Plant	940,780	(282,070)	658,710	124,165	782,875
Avg. Dep. Res.	509,370	(72,790)	436,580	8,181	444,761
Net Plant	431,410	(209,280)	222,130	115,984	338,114
Less Contrib.	63,090	18,110	81,200	0	81,200
Advances	460	0	460	0	460
Plus W.C.	20,070	0	20,070	0	20,070
M&S	5,080	0	5,080	0	5,080
Rate Base	393,010	(227,390)	165,620	115,980	281,600
Rate of Return	17.0%	-	49.47%	-	10.50%

(Red Figure)

TABLE 3-1

OPERATION AND MAINTENANCE EXPENSES

Test Year 1988

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Purchased power	\$ 5,077	\$ 5,077	\$ 5,077
Employee Labor	40,540	38,207	40,540
Materials	2,919	2,919	2,919
Contract Work	1,553	1,553	1,553
Transportation Expenses	7,205	1,482	7,205
Other Plant Maint. Exp.	855	855	855
Office Salaries	17,727	17,727	17,727
Management Salaries	16,780	5,069	16,780
Employee Pension & Ben.	7,799	7,799	7,799
Uncollectibles	360	360	360
Office Services & Rental	5,606	5,606	5,606
Office Supplies & Expense	5,346	5,346	5,346
Professional Services	3,100	3,100	3,100
Insurance	9,885	9,885	9,885
Reg. Comm. Expense	3,230	3,230	3,230
General Expenses	1,565	1,565	1,565
Rent	0	0	0
Imputed Interest	<u>0</u>	<u>11,460</u>	<u>0</u>
Total	129,547	121,240	129,547
Use	129,540	121,240	129,540

TABLE 3-2

OPERATION AND MAINTENANCE EXPENSES

Test Year 1989

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Purchased power	\$ 5,098	\$ 5,098	\$ 5,098
Employee Labor	42,360	40,002	42,360
Materials	3,087	3,087	3,087
Contract Work	1,634	1,634	1,634
Transportation Expenses	7,205	1,559	7,205
Other Plant Maint. Exp.	904	904	904
Office Salaries	18,561	18,561	18,561
Management Salaries	17,770	5,308	17,770
Employee Pension & Ben.	8,205	8,205	8,205
Uncollectibles	361	361	361
Office Services & Rental	5,929	5,929	5,929
Office Supplies & Expense	5,654	5,654	5,654
Professional Services	3,240	3,240	3,240
Insurance	10,400	10,400	10,400
Reg. Comm. Expense	3,230	3,230	3,230
General Expenses	1,571	1,571	1,571
Rent	0	0	0
Imputed Interest	<u>0</u>	<u>11,460</u>	<u>0</u>
Total	135,209	126,203	135,209
Use	135,210	126,203	135,210

TABLE 4-1

Taxes

Test Years 1988 and 1989

1988

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Property Taxes	\$4,300	\$4,410	\$4,410
Payroll Taxes	<u>5,150</u>	<u>4,820</u>	<u>5,150</u>
Total	9,450	9,230	9,560

1989

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Property Taxes	\$4,970	\$4,450	\$4,450
Payroll Taxes	<u>5,340</u>	<u>5,340*</u>	<u>5,340</u>
Total	10,310	9,790	9,790

* As shown in comparison exhibit. Correct figure is \$5,030.

TABLE 4-2

Income TaxesTest Years 1988 and 1989

<u>Item</u>	<u>Adopted 1988</u>		<u>Adopted 1989</u>	
	<u>Present Rates</u>	<u>Authorized Rates</u>	<u>Present Rates</u>	<u>Authorized Rates</u>
Operating Revenue	\$164,910	\$194,454	\$165,610	\$200,705
Operating Expenses	129,540	129,540	135,210	135,210
Taxes Other Than Income	9,560	9,560	9,790	9,790
Depreciation	<u>16,960</u>	<u>16,960</u>	<u>17,352</u>	<u>17,352</u>
Subtotal Deductions	156,060	156,060	162,352	162,352
State Taxable Income	8,850	38,394	3,258	38,353
State Income Tax	823	3,571	513*	3,567
Federal Taxable Income	8,027	34,823	2,745	34,786
Federal Income Tax	1,204	5,223	412	5,218
Total Income Tax	2,027	8,794	925	8,785

* Prorated minimum.

TABLE 5

Utility PlantTest Year 1988

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Beginning-of-Year Plant	\$905,325	\$615,388	\$739,554
<u>Additions</u>			
Main and Valve replacement	0	0	0
150 Meters	0	4,950	4,950
Replace 2 Hydrants	0	4,400	4,400
Replace 14-inch Pipe - St. Hwy. Br.	35,458	35,458	35,458
Retirements	0	(3,450)	(3,450)
End-of-Year Plant	940,783	656,746	780,912
Average Plant	940,780	636,067	760,233

Test Year 1989

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Beginning-of-Year Plant	\$940,780	\$656,746	\$780,912
<u>Additions</u>			
Main and Valve Replacements	0	0	0
150 Meters	0	4,950	4,950
Replace Fire Hydrant	0	2,200	2,200
Retirements	0	(3,225)	(3,225)
End-of-Year Plant	940,780	660,671	784,837
Average Plant	940,780	658,709	782,875

(Red Figure)

TABLE 6

Depreciation Expense and Reserve

Test Years 1988 and 1989

<u>1988</u>	<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
	Beginning-of-Year Depreciation	\$477,442	\$414,139	\$415,934
	Depreciation Expense	26,925	13,371	16,960
	Amortization of Contributions	0	4,748	4,748
	Retirements	(8,460)	(3,450)	(3,450)
	End-of-Year Depreciation	495,907	428,808	435,192
	Average Depreciation Reserve	486,675	421,474	425,063
<u>1989</u>				
	Beginning-of-Year Depreciation	\$495,907	\$428,808	\$435,192
	Depreciation Expense	26,925	13,764	17,352
	Amortization of Contributions	0	5,010	5,010
	Retirements	0	(3,225)	(3,225)
	End-of-Year Depreciation	522,832	444,357	454,329
	Average Depreciation Reserve	509,370	436,582	444,761

(Red Figure)

TABLE 7

<u>Item</u>	<u>Rate Base</u>		
	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
<u>1988</u>			
Average Plant	\$940,780	\$636,070	\$760,233
Average Depreciation Reserve	(486,675)	(421,470)	(425,063)
Net Plant	454,105	214,600	335,170
Less: Contributions	(67,920)	(77,020)	(77,020)
Advances	(580)	(580)	(580)
Plus: Working Cash	19,260	19,260	19,260
Materials & Supplies	5,080	5,080	5,080
Rate Base	409,945	161,340	281,910
Use	409,945	161,340	281,910
<u>1989</u>			
Average Plant	\$940,780	\$658,710	\$782,875
Average Depreciation Reserve	(509,370)	(436,580)	(444,761)
Net Plant	431,410	222,130	338,114
Less: Contributions	(63,090)	(81,200)	(81,200)
Advances	(460)	(460)	(460)
Plus: Working Cash	20,070	20,070	20,070
Materials & Supplies	5,080	5,080	5,080
Rate Base	393,010	165,620	281,604
Use	393,010	165,620	281,600

(Red Figure)

The City announced at hearing that it had made a preliminary offer to purchase the Dunsmuir system. As explained below, this fact affects our decision on how to dispose of the accumulated surcharge, and whether to continue the existing surcharge. Most of the letters referred to above recommended that the SDWBA surcharge should continue to be collected, apparently in anticipation that the accumulated fund would be turned over to the City, as a condition of such a sale.

In D.85-12-013, supra, applicant's system was found to need major upgrading; the decision recognized that the utility needed to replace a tank and most of its mains. That decision authorized applicant, as discussed below, to use the SDWBA financing for these improvements. It collected the surcharge (some \$124,000 has been accumulated), but did not use SDWBA financing for the tank replacement. It has no immediate plans to use SDWBA financing for main replacements. These events create ratemaking and nonratemaking issues, as detailed below.

The SDWBA Problems

In A.85-06-017 (D.85-12-013), the Commission found that financing was needed to replace a tank and mains serving Dunsmuir customers. Applicant was consequently granted authority to borrow \$588,130 for 30 years at 8-1/2% under the provisions of the California SDWBA (Water Code § 13850 et seq.), and to institute the customary rate surcharge to repay principal and interest on the loan. The amount of the surcharge (just under \$60,000 per year) was designed to just offset the loan payments. Applicant was authorized to begin the surcharge well in advance of the expected due date for the first payment on the loan; this was intended to provide an extra measure of security for the lender.

The most expensive single project was the replacement of a 400,000-gallon storage tank. The company also proposed to replace undersized and older mains. It was estimated that the following costs would be funded by the loan and surcharge:

Construction costs	\$448,530
Insurance	4,000
Accounting	14,000
Legal fees	10,000
Engineering and permits	24,000
Inspection	18,561
Contingencies	<u>51,909</u>
Subtotal	571,000
3% Administrative fee	<u>17,130</u>
Total	\$588,130

The tank alone was expected to cost \$220,000, including add-ons of \$37,000.

At a well-noticed public meeting in 1985, the community consensus was adverse to SDWBA financing. The prevailing sentiment seemed to be that the improvements were needed, but should be donated without any cost to the consumer. The Commission decision noted this reaction but implicitly recognized that the improvements would not be donated to the utility; it determined that SDWBA financing was the only practical means of financing the needed improvements.

Applicant obtained a commitment from Department of Water Resources (DWR) for the proposed loan in the amount authorized. However, applicant did not put the tank project out to competitive bid as required by DWR. Instead, its principals decided to use their backhoe company to construct the tank. They did not use the engineering, accounting, or legal services contemplated by the cost estimate.

When applicant applied for a loan to pay the backhoe company for the work done on the tank, DWR refused to make the loan because of the lack of competitive bidding. It is now clear that it is impossible to finance the tank with an SDWBA loan. Even so, applicant has continued to collect the surcharge. The fund now amounts to \$124,000. As directed by the Commission decision, the

funds collected are in a separate interest-bearing account. The staff audit indicates that the fund is intact.

However, the system still needs to have mains replaced, and DWR still maintains a commitment for more than enough to complete all needed capital projects. This commitment will apparently be available to the City, if it purchases the system.

Applicant's collection of the surcharge and its construction of the tank without complying with DWR requirements pose several problems:

1. Should we permit it to continue collecting the surcharge?
2. Should we permit it to retain the accumulated surcharge fund for transfer to the City, if the sale is consummated? If the sale is not consummated, should the sum be expended directly on the main improvements required? Should the fund be returned to consumers? Should it be used to defray the amortization and interest on a new SDWBA loan for the remainder of needed system improvements?
3. Should we (as recommended in the financing application) allow part of the applicant's equity investment in the tank to be converted into a loan? Should the loan be in the amount of \$110,000 as recommended by applicant or for \$14,000 as recommended by staff?
4. For ratemaking purposes, should the cost of the tank be considered as conventional rate base or as a constructive DWR loan?

We will decide Questions 1 and 4 in this decision; Questions 2 and 3 will be decided in a separate decision on the financing application.

Can the Fund be Used to Pay for the Tank?

Using the fund to pay for the tank does not appear to be a viable option. In staff's opinion, this would create an income tax liability, amounting to as much as 1/3 of the funds used in

such a manner. Staff anticipates that such liability would have to be flowed through to consumers. This, of course, assumes that applicant will remain a public utility, able to pass the liability on to consumers through rates. The net effect of such a flow-through would reduce the amounts which could be used for plant improvements. Staff concludes that the only way to avoid diverting a part of the fund to an unintended purpose would be to return it to consumers.

Because of the potential for a tax liability, none of the interested parties recommend that we use the fund to pay the backhoe company the cost of already constructed plant. However, City asserts that it would be better to use 2/3 of the fund for still-needed plant improvements than to return the money to consumers.

In our view, there are alternatives other than returning the fund to consumers or allowing part of the fund to be diverted. These should be considered before we order an irreversible disposition of the fund. It may be possible to use all of the fund for system improvements without diverting any portion of it to federal tax coffers. For example, it appears possible that a transfer of the fund to the City might accomplish this goal, assuming that the sale is consummated. Even if there is no sale, it may be possible to use the fund to reduce the surcharge which would otherwise be needed for SDWBA financing of the future improvements, without causing any adverse tax effects.

It appears that there is no urgency in deciding this issue. We should and will wait until there is a contract to purchase, or until it is clear that there will be no sale before we decide how to disburse the fund. We will require periodic reports from the utility as to the status of the fund and the status of the proposed sale to the City. We will also require applicant to obtain approval before disbursing the fund.

Should the Surcharge Continue?

SDWBA surcharges are intended to provide a pay-as-you-go method of defraying the cost of constructed plant. While the lender requires utilities to accumulate a small "cushion" before the first payment is due, this is allowed only to the extent necessary to provide an acceptable level of security on the loan. In this case, the accumulated surcharge is many times larger than needed to provide security on any conceivable loan. No construction is likely in the near future; no loan payments are due; and it is unlikely that any of the parties will schedule further improvements or seek a loan until after it is known whether the sale will proceed or not.

The City asserts that we should nevertheless permit the fund to grow. It feels that a reduction in monthly charges will limit its freedom to set rates after it becomes responsible for them. In our opinion, that is not an adequate reason for continuing to compel customers to pay a surcharge.

Without a current need for the surcharge, and without any assurance that it is not set at too high a level, we think it inappropriate at this time to permit any further accumulation of funds. Even if only a minority of customers are interested in lower bills, we should not force them to contribute to a fund which may ultimately have to be returned to consumers.

Staff proposes an order that applicant not undertake any form of financing other than an SDWBA loan, unless it provides all of the consumer protective features covered by the nonconstruction costs. We are hesitant to adopt such an order at the present time. First, the proposal anticipates that there will be no sale and that applicant rather than City will complete the rest of the needed system improvements. While that assumption may have been likely at the time of hearing, it is now less likely.

Secondly, it assumes that all of the nonconstruction costs which accompany SDWBA loans are worthwhile in terms of

protecting customers from mistakes or abuses. We think that question may need more careful review, especially since nonconstruction costs would add so significantly to the total cost of a project.

We will order applicant to seek staff concurrence in writing before arranging financing for future major plant improvements. If staff does not concur, applicant will be required to amend its financing application to obtain Commission approval.

Internal Controls

The staff auditor reviewed applicant's internal controls and found them deficient. He criticized several features of its practices which would leave the company unusually vulnerable to financial mismanagement. He also criticized its failure to adequately protect its physical resources. He made specific recommendations which, in his opinion, would be practical for a small utility.

For example, he noted that the company had no established policy to distinguish between small checks which could be issued by a single individual, and those large enough to require a countersignature. He recommended that the management establish such a policy, reduce it to writing, and enforce it.

As another example, he noted that the management delegated almost complete discretion and bookkeeping responsibility to a single employee. While noting that the employee is highly competent and deserves the trust placed in her, he nevertheless recommended that the company divide this responsibility between two individuals.

His findings in this regard were not disputed by the applicant. Our order will require the utility to upgrade its internal controls in light of his recommendations.

Balance Sheet Deficiencies

After auditing balance sheet accounts, the auditor found serious discrepancies. First, the utility had no detailed property

records. Second, the utility does not use a work order system for noting plant additions and retirements. Third, the utility does not have any reliable records of transactions between itself and the backhoe operation. This is an especially serious problem, since the backhoe business is clearly a related entity. Meticulous records are necessary to protect against self-dealing and cross-subsidy.

The auditor summarized his analysis by stating "there is a near total absence of documentary evidence to support either the existence or the value attributed to major portions of the plant additions reported by Dunsmuir."

He consequently reclassified many of the capital transactions claimed for work by the backhoe operation as management salaries. The amounts of capital reclassified were:

1984	\$26,400
1985	31,800
1986	22,900

He did, however, recognize some of the work done on the tank by the backhoe operation. This occurred in 1987; the amount allowed was \$28,700. Applicant claims that the Commission should recognize a total cost for that tank, after depreciation, of \$145,000; the staff would allow only \$124,000.

Applicant contends that it is highly unjust to Mr. Thompson and Mr. Adams to effectively compel them to donate many hours of labor to the utility. It notes that this labor was performed in a good faith belief that the owners were building up their equity in the utility.

We recognize that applicant's owners may indeed not be compensated for many hours of work which could be classed as an investment, if adequate records were available. However, we have obligations to the ratepayers as well. To discharge these obligations, we must insist that the utility demonstrate that the

claimed hours of labor were expended, and were properly capitalized rather than expensed.

We also note that the backhoe company's bills, at least in some instances, include a profit. It is a basic principle of California regulation that a utility affiliate should not earn more on a transaction with the utility than if the same service had been provided by the utility itself. The most recent application of this long-standing principle is Graeagle Water Co., D.88-10-056 in A.87-11-001.

To apply this principle here, we would need to know how much profit was included for each improvement. We would also need additional data on the backhoe operation to determine whether the claimed profit was excessive. The record here is not detailed enough to permit us to estimate the amount of excess profit claimed on the inter-affiliate transactions. Adopting the staff-recommended reclassification gives some measure of assurance that none of the profits are capitalized.

Finally, we note that applicant did not obtain competitive bids, preferring instead to use an affiliated company. Where a utility deals with an affiliate and fails to obtain competitive bids on a major capital project, it should be prepared to demonstrate that it has made the best possible deal for the consumer. Here again, adopting the recommended reclassification assures us that the lack of competitive bidding did not injure consumers. The allowed amount is so much less than the amount budgeted by D.85-12-013, that there is little reason to expect that competitive bidding would have produced a more favorable result.

For these reasons, we adopt the staff-recommended values for capital additions. We will also adjust depreciation reserve, depreciation expense, and income tax accordingly.

We will also require applicant's books of account to be adjusted to reflect the allowed plant costs; and we will specifically order applicant to institute a work order system,

which will apply to any work other than office work done by either the employees or by the two owners as employees of the utility. It or a comparable system will also apply to any utility work done by employees of the backhoe company.

We will also order applicant to change from cash to accrual accounting as recommended by the staff auditor. This change will bring applicant into conformity with the applicable Uniform System of Accounts for smaller water utilities.

The Financing Application

The ALJ issued a ruling in A.87-09-020 to clarify the status of that proceeding. Applicant responded, asserting that the application is moot. If it is assumed that the sale to the City will be finalized, that position is correct. However, there still is a possibility, however remote, that the sale will not go through. In that event, the financing question would have to be decided on the merits.

It would therefore be premature² to resolve the financing question before the sale is either finalized or clearly abandoned.

In the likely event that the sale is finalized, we anticipate issuing a single order which would:

- a. Decide whether to approve the sale under PU Code Section 851,
- b. Decide whether to transfer the SDWBA accumulated fund to the City or return it to consumers, and
- c. Dismiss the financing application as moot (assuming the sale is approved).

² Neither staff nor applicant suggested that granting relief in the financing application would have any effect on applicant's revenue requirement in the rate application.

In the unlikely event that the parties are unable to reach final agreement (or that the transfer is disapproved) we would then issue a single order which would:

- a. Decide whether the SDWBA funds should be retained to support future construction or returned to consumers, and
- b. Decide the financing application on the merits.

Other Rate-making Issues

Expenses

Management Compensation

Applicant based its proposed allowance for management salaries on the amount allowed by the Commission in D.82-06-018, the last Dunsmuir general rate decision. With partial ³ escalation, (using staff's inflation factors) the amount is \$18,400 for 1988 and \$19,230 for 1989 for Dunsmuir. (The corresponding figures for Fort Jones are \$4,600 and \$4,800.) The joint comparison exhibit shows that applicant subsequently revised its figures to \$16,780 for 1988 and \$17,770 for 1989 for Dunsmuir. (For Fort Jones, the amounts were revised to \$3,880 and \$4,100.)

Applicant did not need to introduce any evidence to support the allowance made in a previous rate case involving its operation. Once adopted by the Commission in a decision after hearing, it became presumptively valid. The presumption is strengthened by the fact that the allowance in that case was recommended by staff, the party which is now seeking a substantially different result.

The new staff estimate is based on an allowance for 8 hours per week for a single individual at a rate of \$15 per hour.

³ The indexing was applied only to the years after 1986.

Applicant records half of the current total management compensation as paid to Mr. Adams, as financial manager. Staff challenges the amount paid to Mr. Adams on the ground that he does not participate in the "day-to-day" operations of the utility.

Applicant responds that it is the prospective reasonableness of the total sum that is in issue, not whether the amounts paid in the past were properly divided between the principals. However, applicant would have no objection if the total were reassessed at 75% to Mr. Thompson and 25% to Mr. Adams. It argues that Mr. Adams is entitled to some compensation as financial manager. It contends that a financial manager need not participate in day-to-day operations to earn compensation.

Applicant was, however, unable to show that Mr. Adams contributed anything to the process of obtaining capital for the company, or that he did anything else to improve the corporation's financial well-being. Rather, his total contribution (other than as an employee and owner of the backhoe company) seems to be to observe company operations to protect his investment, and to hold the title of financial manager.

One basic premise of ratemaking is that the return on investment is the only compensation to which a stockholder is normally entitled. Unless an investor actually provides services to a utility, he is not entitled to a salary. The mere fact that he holds an impressive title (that of financial manager) does not change the rule.

Therefore, the staff's premise is correct. If we were engaged in retroactive ratemaking, Mr. Adams' past failure to act as a financial manager would justify disallowing half of the amount recorded for this expense. However, staff has not applied the premise correctly to the fixing of future rates. It assumed that since the utility "got by" without the services of a financial manager in the past, it can afford to do so in the future. Staff's own evidence refutes this assumption.

The staff has found multiple management deficiencies, ranging from failure to safeguard and record assets to a near total inability to establish correct relationships between the utility and the backhoe company. The most serious example of the latter failing is applicant's inability or unwillingness to either perfect the SDWBA loan or to deal promptly with the surcharge and other aspects of the in-house financing. Most of these deficiencies, at least arguably, fell within the responsibility of a financial manager.

We therefore find that applicant was severely undermanaged in the past, and that it will, in the future, need the financial management it has been paying for but not receiving. The amount of applicant's estimate is large enough to pay for financial management.⁴

We also do not believe the number of hours allowed adequately allows for the time the operations manager would have to spend on the road between Dunsmuir and either the county seat (Yreka) or Fort Jones. The record indicates that Mr. Thompson has made many trips to the county seat, without making any record of either his time or his auto expenses.

In summary, we have relied on the amount allowed for management compensation in our previous rate decision. This figure has been adjusted to cover both Fort Jones and Dunsmuir Districts. It has also been indexed for inflation over the last two years. While staff's criticism of the salary paid Mr. Adams is warranted,

⁴ Staff's allowance for professional services adds \$1,675 for additional accountant services to improve recordkeeping. This is partially offset by denying overtime compensation for the present office supervisor who spends a good deal of her time on bookkeeping. In our view, this amount, paid to an outside accountant, will not be enough to remedy the effects of past financial oversights.

we have nevertheless found that someone will have to be paid to do the work which Mr. Adams failed to do.

This allowance should not be viewed as a reward for poor management. If applicant remains in the utility business, and if there is another round of rate increases, our staff will scrutinize management effectiveness. We expect a significant improvement; if management is still below par, we will devise an appropriate remedy.

Pension and Benefits

Applicant's pension and benefit program covers Mr. Thompson, Mr. Adams, the office manager, and two full-time employees. As shown in the tables, staff did not disallow Mr. Adams' share of the cost. We adopt the staff/applicant estimate.

Transportation Expense

Applicant derived its original transportation expense estimate by using a record-based figure of \$2,125 for gasoline plus \$10,905 claimed for lease payments to the backhoe company. The lease purportedly covered two pickup trucks. Applicant proposed to escalate both figures for 1989 by a factor of 1.037.

The staff recommended that the "lease" be disregarded, both because there was no written lease or other documentation, and because it was not an arm's length transaction.

Staff instead allowed 25 miles per working day for maintenance and management employees, at a rate of 21 cents per mile. The utility owns an ancient four-wheel drive pickup. An employee erroneously informed staff that the vehicle logged only 50 miles per year. Staff applied a 31 cents per mile rate for use of this truck, allowing 50 miles per year.

At hearing, applicant proposed a new estimate. It proposed to treat all three vehicles as if owned by the utility. Under such a hypothetical, costs would include depreciation and an allowance for return on the depreciated value. This would be added

to the recorded repairs and gasoline to yield an expense of \$3,605 per year. In addition, it asked for an allowance for 120 hours of backhoe use at \$30 per hour. The total comes to \$7,205 per year.

Staff is clearly right to recommend that we disregard the lease. However, we prefer the applicant's more recent estimate. Staff's method requires it to project a mileage figure, based on its expertise, rather than on records. Applicant's method does not require a mileage estimate. Staff also overlooked the need for a backhoe for noncapitalized operations.

We will therefore allow \$7,205 for this expense.

Employee Labor

Applicant points out that staff's estimate is based on a 40-hour week for its workmen. However, it pays for a 42-hour week; this compensates each of them for standing by on alternating weekends.

Its estimates, as shown in the table, reflect actual recorded data concerning hours worked. The wages are at actual September 1987 levels; the staff labor escalation factors were applied to develop 1988 and 1989 wages. We will adopt the applicant's estimate.

Ratemaking Treatment-SDWBA-Financed Plant

Staff considers that the applicant passed up a very advantageous financing package by failing to qualify the tank project for an SDWBA loan. It, therefore, contends that the customers should pay no more than would be necessary to amortize the allowed cost of the tank (\$124,166) for 30 years with a constructive interest rate of 8.5%.

Applicant responds that its decision to allow the backhoe company to do the work saved consumers the amount of the ancillary professional fees, plus the cost of arranging for competitive bids, plus the 3% administrative fee. It argues that the staff position is not even-handed since it fails to take these savings into consideration in recommending a ratemaking treatment.

Staff responds that these ancillary costs were intended to protect the public from fraud or incompetence. It asserts that the savings should not be recognized since applicant's conduct exposed its customers to unjustified risks. However, we note that the only major problem that occurred, the failure to keep records, injured applicant's owners rather than the public.

Staff suggests that the failure to put the project out to bid endangered the public's interest in paying as little as possible for plant additions. In the ordinary case, such a failure would justify a searching review of the costs to ensure that the public was not asked to pay too much. Here, however, we have already reclassified a major portion of the claimed cost as a noncapital expenditure, reducing the capitalized amount to \$124,166. Staff has not presented any evidence to suggest that a competitive bidder would have built the tank for less than that amount. The lack of competitive bidding therefore does not justify the staff treatment.

Staff noted that the tank has a minor leak and contends that professional engineering supervision would have prevented this problem. However, the evidence will only support a finding that such supervision might have avoided the problem. In any event, applicant will fix the leak without any charge to the consumers. Hence, the lack of such supervision will have no economic impact on the consumers.

Finally, staff has not drawn a causal link between the 3% administration fee and consumer protection issues.

We find it difficult, on this record, to refute applicant's claim that its mistakes in managing and financing tank construction did not injure the public. Even with the benefit of hindsight, we cannot find that the decision to forego the SDWBA loan caused any injury or loss to consumers.

We will, therefore, not give to the tank the ratemaking treatment recommended by staff. Instead, the allowed cost of the tank will be treated as ordinary rate base.

Relocation Project

Applicant's original advice letter did not include in rate base a project which relocated some of its mains. This relocation was necessitated by a highway project undertaken by Caltrans. The total cost of the relocation was \$35,458. Caltrans' share of the cost was \$18,110; Caltrans is expected to enter into a contract confirming its obligation to pay the utility that sum. Both the staff auditor and the staff engineer recommended that applicant be allowed to recover its \$17,348 share of the cost.

For accounting purposes, the auditor recommended that the transaction be reflected by entering the company's share on the books as a deduction from depreciation reserve, thus increasing rate base. For ratemaking purposes only, applicant and the staff engineer treated the entire relocation cost as an addition to plant in service during 1988 and increased the contributions account by Caltrans' share, thus likewise increasing rate base by applicant's share. The joint comparison exhibit takes the latter approach. For ratemaking purposes in this proceeding only, we will adopt the approach agreed upon in the joint comparison exhibit as producing an equitable result.

Other Rate Base Adjustments

As noted above, the staff auditor found that the applicant's claims for pre-1987 plant additions were not adequately documented. Plant in service will, accordingly, be reduced, thereby reducing depreciation expense; rate base and hence return are also reduced. We will adopt the staff's recommended adjustments to rate base and depreciation reserve, adding in the cost of the tank, after deductions for lack of documentation.

Rate Design

One customer made a statement concerning rate design. Coincidentally, his recommendations are similar to those the Commission has already adopted. (D.86-05-064 in Investigation 84-11-044.) Under that decision, our policy is to move toward a single rate block. A fixed service charge is to be established, providing enough revenue to cover up to 50% of a utility's fixed charges.

This rate increase is small enough that we could not fully accomplish these objectives without requiring some classes of customer to pay more than a fair share of the increase. We have consequently retained multiple rate blocks.

Service

At the public meeting there were comments indicating that pressures were low in certain parts of the system in the summertime. When applicant has replaced all undersized and leaking mains, this problem should be remedied. Alternatively, we expect that a sale to the City will be followed by a main replacement program.

Comments on Proposed Decision

The ALJ's Proposed Decision was issued on January 6, 1989. Staff filed comments on January 25, indicating that it had no objection to the Proposed Decision. It has been adopted without change.

Findings of Fact

1. Applicant is owned and controlled by Mr. Thompson and Mr. Adams; they also control Thompson Backhoe Service (Service), a partnership. The Service provides construction and repair services to applicant. Mrs. Adams and Mrs. Thompson own interests in applicant, and function as employees of both companies.

2. Applicant chose to have Service construct the tank in Dunsmuir, without competitive bidding; as a result, there will be no SDWBA financing for that project.

3. Applicant, acting under Commission authority, commenced and continued to collect the SDWBA surcharge, even though it has not completed or projected construction to be financed by an SDWBA loan. The amount collected as of the time of hearing is \$124,000.

4. A significant portion of applicant's mains still need replacement. The cost of remaining improvements could be approximately \$191,000 or more. Applicant still has a loan commitment for \$588,000 for 30 years at 8-1/2%. If the system is sold to the City, City could use this commitment to obtain a loan.

5. The City plans to buy the system and to complete the transaction in the spring of 1989.

6. The City will use any funds that come to it, as a result of a purchase of the system, to remedy system deficiencies.

7. There is insufficient evidence to indicate that the tank project could have been completed under the conditions of an SDWBA loan, at a total cost, including nonconstruction costs, less than amount allowed by staff.

8. The tank has a leak; there is insufficient evidence to demonstrate that the leak could have been avoided if the construction had been supervised by a professional engineer, as contemplated by the SDWBA loan authorization.

9. Applicant will fix the leak, without any additional cost to consumers.

10. It is not just or reasonable to treat the tank as having been financed at the allowed construction cost under an SDWBA loan.

11. It would be premature to decide how to dispose of the accumulated fund.

12. Collection of the surcharge should be suspended. It should not be resumed until and unless applicant decides to use SDWBA funding for replacement of mains. In that event, applicant should be able to use an advice letter to resume collection at such level as is needed to amortize the amount of the proposed loan less any amounts from the accumulated funds.

13. If the fund were to be used to pay for the tank, a portion of the fund would be diverted from its intended purpose. If the system is sold to City of Dunsmuir, the fund should be disposed of in the Commission order which determines whether the

sale should be authorized. If the system is not sold, the disposition of the fund should be decided in the financing application. We will require periodic reports from the utility regarding the status of the sale and the status of the fund.

14. The financing application is moot if a sale to the City of Dunsmuir occurs.

15. Revenue and expense are not recorded on an accrual basis.

16. Applicant's annual reports and records are not reliable.

17. There is insufficient evidence to demonstrate that the original cost of the tank was more than \$126,144.

18. There is inadequate documentation of claimed plant investments in the amounts of \$26,400 in 1984, \$31,800 in 1985, and \$22,900 in 1986. Applicant's claimed rate base should be reduced by those amounts.

19. \$18,110 of the cost of the relocation project should be treated and recorded as a contribution; the remaining \$17,348 should be recorded as an adjustment to depreciation reserve. For ratemaking purposes for this proceeding only, the \$17,348 should be treated as an addition to rate base.

20. The number of hours allowed by staff for management compensation is too low. The staff allowance assumes that applicant needs no more in the way of financial management than it received in past years. This is not the case.

21. The amount allowed for management in the last rate case is, when adjusted for inflation and for services to the Fort Jones District, sufficient to provide a reasonable compensation for future financial and operational management.

22. The staff's allowance for transportation did not recognize the need for a backhoe in noncapital operations. There are insufficient records to support a reliable estimate of truck or passenger car mileage.

23. Applicant's transportation expense estimate is more reliable than staff's since it does not require a mileage estimate and allows for backhoe use.

Conclusions of Law

1. Applicant should be authorized to charge the rates set forth in Appendix A.

2. Applicant should be ordered not to disburse the surcharge fund until further order of the Commission. The surcharge should be suspended.

3. Applicant should be required to amend its books of account to reflect the adopted plant disallowances.

4. Applicant should be ordered to reform its internal recordkeeping system and practices to correct the flaws noted in Findings 15 to 17. It should keep books on an accrual system. It should install a work order system for work, other than office or managerial work, done by its employees. It should install a comparable system to provide reliable records of all work done for the utility by Service.

5. For ratemaking purposes, applicant should not be allowed reimbursement for any profit paid on transactions between itself and Service.

6. Applicant should be required to seek staff concurrence or Commission approval before financing major plant improvements.

7. Unless the proposed sale to the City is abandoned, the financing application is moot. It should be decided by separate order.

8. The applicant is in need of rate relief and this order should therefore be effective immediately.

ORDER

IT IS ORDERED that:

1. Applicant Dunsmuir Water Corporation is authorized to charge the rates set forth in Appendix A. It shall file tariff pages in accordance with General Order 96-A. The revised tariff schedules shall apply only to service rendered on and after their effective date.

2. Applicant shall adjust its books of account to reflect the plant disallowances adopted herein.

3. Applicant shall no longer charge the SDWBA surcharge. It shall retain the funds already collected until further order of the Commission and shall report on June 1 and December 1, 1989 to the Director of the Commission Advisory and Compliance Division (CACD) the amount in the fund and the status of the proposed sale to the City. Applicant shall notify CACD promptly if negotiations for the sale are permanently discontinued. Applicant is authorized to file an advice letter reestablishing a surcharge to repay its SDWBA loan if and when it resumes use of SDWBA funds for its approved plant improvement program. It shall not seek a level of surcharge greater than that needed to amortize the loan amount after taking into consideration the surcharge amounts already accumulated.

4. Applicant shall reform its internal recordkeeping system and practices to correct the flaws specified by Findings 15 through 17. It shall keep books on an accrual system. It shall install a work order system for work, other than office or managerial work, done by its employees. It shall install a comparable system to provide records of all work done for the utility by Thompson Backhoe Service.

5. Applicant shall seek staff concurrence in writing before arranging any financing, including use of internal or stockholder funding, for future plant improvements aggregating \$10,000 or more in any one-year period. If staff does not concur, applicant shall

amend its financing to obtain Commission approval before arranging such financing.

6. Application 87-09-020 is severed for separate decision.

This order is effective today.

Dated FEB 8 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. CHANIAN
Commissioners

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


Victor Weiser, Executive Director

APPENDIX A
Page 1

Schedule No. DU-1

Dunsmuir Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATES

Quantity Rates:		Per Meter Per Month	(D)
First	500 cu.ft., per 100 cu.ft.	\$ 0.31	(C)
Next	8,500 cu.ft., per 100 cu.ft.	1.03	(C)
Over	9,000 cu.ft., per 100 cu.ft.	0.49	(C)
Service Charge:			(C)
For	5/8 x 3/4-inch meter	\$ 5.06	(C) (D)
For	3/4-inch meter	9.80	(C) (D)
For	1-inch meter	15.50	(C) (D)
For	1-1/2-inch meter	28.10	(C) (D)
For	2-inch meter	41.70	(C) (D)
For	3-inch meter	68.00	(C) (D)
For	4-inch meter	95.00	(C) (D)
For	6-inch meter	149.00	(C) (D)
For	8-inch meter	203.00	(C) (D)

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. (C)

SPECIAL CONDITION

All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

(L)
|
(L)

APPENDIX A
Page 2

Schedule No. DU-4

Dunsmuir Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATES

	Water Rates Per Month		(D)
For 3-inch service, or smaller	\$ 5.20	(I)	
For 4-inch service	8.00		
For 6-inch service	20.00		
For 8-inch service	32.00		
For 10-inch service	49.20	(I)	(D)
57.00			

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility, and the cost paid by the applicant. Such payment shall not be subject to refund.

2. If a distribution main of adequate size to serve a private protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

APPENDIX A

Page 3

Schedule No. DU-4

Dunsmuir Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Continued

3. Service hereunder is for private fire protection systems in which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector-type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water, and the cost paid by applicant. Such payment shall not be subject to refund.

4. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

5. All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

APPENDIX A

Page 4

Schedule No. 2RX

Dunsmuir Tariff Area

TEMPORARY RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to existing Shasta Retreat flat rate residential water service, furnished on a monthly basis.

TERRITORY

Shasta Retreat and vicinity, City of Dunsmuir, Siskiyou County.

RATES

	Per Service Connectio <u>Per Month</u>	(D)
For a single-family residential unit, including premises	\$ 6.90 (I)	(D)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

(END OF APPENDIX A)

APPENDIX B

Dunsmuir Water Company
Dunsmuir District

COMPARISON OF RATES

For customers with 5/8 x 3/4-inch meters:

<u>Usage</u> <u>(Ccf)</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percent</u>
0	\$ 5.06	\$ 5.06	\$ 0.00	0.0%
5	5.06	6.61	1.55	30.6%
10 (Avg.)	9.71	11.76	2.05	21.1%
15	14.36	16.91	2.55	17.8%
20	19.01	22.06	3.05	16.0%
90	67.91	94.16	26.25	38.7%
100	74.51	99.07	24.56	33.0%

For customers with 4-inch meters:

4,000	1,523.31	2,100.00	576.69	37.9%
8,000	3,003.31	4,060.00	1,056.69	35.2%

(END OF APPENDIX B)

APPENDIX C
Page 1

Dunsmuir Water Company
Dunsmuir District

ADOPTED QUANTITIES
Test Years 1988 and 1989

Net-to-gross Multiplier:	1.2971
Federal Tax Rate:	15%
State Tax Rate:	9.3%
Local Franchise Rate:	0.0%
Uncollectible Rate:	0.0%

Expenses:

1. Purchased Power

Pacific Power and Light	
Rate Schedule - for Pumps	A-25
Effective Date of Schedule	1/87

	<u>TY 1988</u>	<u>TY 1989</u>
kWh Used Total	46,213	46,412
\$/kWh	\$0.10188	\$0.10188
\$	\$ 4,708	\$ 4,728
\$ - Service Charge (\$30/Mo)	\$ 360	\$ 360
\$ - Energy Comm. Charge		
(\$0.0002/kWh)	\$ 9	\$ 9
\$ - Total Purchased Power-Pumps	\$ 5,077	\$ 5,077
\$ - Total Purchased Power-Other	\$ 1,011	\$ 21
\$ - Total Purchased Power	\$ 6,088	\$ 5,098
2. Purchased Water		None
3. Pump Tax - Replenishment Tax		None
4. Payroll		
Total	\$ 75,047	\$ 78,691
Payroll Taxes	\$ 5,150	\$ 5,340
5. Ad Valorem Taxes	\$ 4,410	\$ 4,450
Tax Rate	1.195%	1.195%
Assessed Value	\$369,038	\$372,385
6. Water Testing (in Other Contract Work)	\$ 1,410	\$ 1,483

APPENDIX C
Page 2

Dunsmuir Water Company
Dunsmuir District

ADOPTED QUANTITIES
Test Years 1988 and 1989

Service Connections

Flat Rate	49	49
Metered Rate		
5/8 x 3/4-inch meter	1,045	1,051
1-inch meter	17	17
1-1/2-inch meter	7	7
2-inch meter	11	11
4-inch meter	<u>2</u>	<u>2</u>
Subtotal Metered	1,082	1,088
Total Customers	1,131	1,137

Metered Water Sales Used to Design Rates

0-5 Ccf	51,970
5-90	87,794
> 90	<u>25,747</u>
	165,511

(END OF APPENDIX C)

Rate Design

One customer made a statement concerning rate design. Coincidentally, his recommendations are similar to those the Commission has already adopted. (D.86-05-064 in Investigation 84-11-044.) Under that decision, our policy is to move toward a single rate block. A fixed service charge is to be established, providing enough revenue to cover up to 50% of a utility's fixed charges.

This rate increase is small enough that we could not fully accomplish these objectives without requiring some classes of customer to pay more than a fair share of the increase. We have consequently retained multiple rate blocks.

Service

At the public meeting there were comments indicating that pressures were low in certain parts of the system in the summertime. When applicant has replaced all undersized and leaking mains, this problem should be remedied. Alternatively, we expect that a sale to the City will be followed by a main replacement program.

Findings of Fact

1. Applicant is owned and controlled by Mr. Thompson and Mr. Adams; they also control Thompson Backhoe Service (Service), a partnership. The Service provides construction and repair services to applicant. Mrs. Adams and Mrs. Thompson own interests in applicant, and function as employees of both companies.

2. Applicant chose to have Service construct the tank in Dunsmuir, without competitive bidding; as a result, there will be no SDWBA financing for that project.

3. Applicant, acting under Commission authority, commenced and continued to collect the SDWBA surcharge, even though it has no completed or projected construction to be financed by an SDWBA loan. The amount collected as of the time of hearing is \$124,000.