

ORIGINAL

Decision 89 02 019 FEB 8 1989

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 91.2 percent in 1988)
and 28.2 percent in 1989 in its Fort)
Jones District, Siskiyou County.)

FEB 10 1989

Application 88-01-012
(Filed January 14, 1988)

John D. Reader and Willis Thompson, for Dunsmuir
Water Corporation, applicant.
Ken Smith, for the City of Fort Jones, interested
party.
Hallie Yacknin, Attorney at Law, for the Commission
Advisory and Compliance Division, Water Utilities
Branch.

O P I N I O N

Dunsmuir Water Corporation (applicant) serves roughly 300 customers in the City of Fort Jones. It has another district serving roughly 1,100 customers in Dunsmuir.

This application began as an advice letter seeking a rate increase of \$28,770 or 91.2% in 1988 and an additional \$17,000 or 28.2% in 1989 for Fort Jones service. The Commission staff recommended that it be converted to a formal application and set for hearing in conjunction with applicant's application for an increase in the Dunsmuir system, Application (A.) 88-01-013.

Since 1977, the Commission has authorized two rate increases totaling about 40.7%. Both advice letter approvals were offsets. The current owners of the utility have never had a general rate increase.

On January 27, 1988, there was a consumer meeting concerning this application in Fort Jones. About 20 customers attended. The staff, Department of Health Services (DHS), and the utility sent representatives. Customers were encouraged to ask

questions about or state their positions on service, the proposed increase, and rate design. Customers were concerned that the utility might be required to ask for voluntary conservation measures as it has in the past. However, only a few were willing to pay the higher rates which would be needed to increase storage. Some preferred to comply with periodic conservation drives rather than to pay higher rates. Several were concerned about the company's inability to account for much of the water pumped from wells. The fire chief indicated that his department had been compelled to import water in trucks for fire fighting purposes. The DHS representative indicated that the existing storage capacity was inadequate.

Hearing was held in Fort Jones on July 26, 1988 and in Dunsmuir on July 28 and 29 before Administrative Law Judge Gilman on a consolidated record with the Dunsmuir application. The City of Fort Jones appeared in addition to the Commission staff and utility.

Applicant's representative testified as an expert witness. One of applicant's two stockholders also testified. Two staff witnesses testified. The Mayor of Fort Jones made a statement. The matter was subsequently taken under submission on August 30, after the filing of a joint comparison exhibit.

At hearing, the utility indicated that over half of the original proposed increase would have been associated with the construction of a new tank. Since the City has proposed to purchase the system, the utility plans to postpone construction of the tank. As a result, at least half of the increase can likewise be postponed. The tables below compare the position of applicant at hearing with the staff recommendations.

TABLE 1

Summary of Earnings

	<u>Applicant</u>		<u>Staff</u>		<u>Adopted</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Authorized Rates</u>
<u>Test Year 1988</u>						
Oper. Rev.	\$31,580	\$60,160	\$31,580	\$60,160	\$31,580	\$42,835
<u>Expenses</u>						
Oper. Exp.	32,300	32,300	29,590	29,590	32,300	32,300
Property Tax	530	530	530	530	530	530
Payroll Tax	1,160	1,160	1,160	1,160	1,160	1,160
Depreciation	3,150	3,150	2,370	2,370	2,370	2,370
Income Tax	0	5,270	0	8,330	0	1,485
Total Exp.	37,140	42,410	33,650	41,980	36,360	37,845
Net Oper. Rev.	(5,560)	17,750	(2,070)	18,180	(4,780)	4,990
Rate Base	60,060*	60,060*	47,490	47,490	47,490	47,490
Rate of Return	Loss	29.56%*	Loss	38.28%	Loss	10.50%
<u>Test Year 1989</u>						
Oper. Rev.	\$32,560	\$79,580	\$32,560	\$79,580	\$32,560	\$44,490
<u>Expenses</u>						
Oper. Exp.	33,810	33,810	30,940	30,940	33,810	33,810
Property Tax	550	550	550	550	550	550
Payroll Tax	1,190	1,190	1,190	1,190	1,190	1,190
Depreciation	3,180	3,180**	2,390	2,390	2,390	2,390
Income Tax	0	9,360**	0	14,690	87	1,500
Total Exp.	38,730	48,090	35,070	49,760	38,027	39,440
Net Oper. Rev.	(6,170)	31,490	(2,510)	29,820	(5,467)	5,050
Rate Base	59,950	59,950	48,060	48,060	48,060	48,060
Rate of Return	Loss	52.53%	Loss	62.05%	Loss	10.50%

* This amount is different from applicant's estimate at the hearing due to applicant's error in calculating the rate base.

** This amount is different from applicant's estimate at the hearing due to error in estimate of depreciation.

(Red Figure)

TABLE 2-1

Number of Metered Connections

<u>Classification</u>	<u>Test Year</u> <u>1988</u>			<u>Test Year</u> <u>1989</u>		
	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Commercial	296	296	296	306	306	306
Public Authority	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
Total	300	300	300	310	310	310

TABLE 2-2

Operating Revenues

Test Years 1988 and 1989

<u>Revenue</u> <u>Item</u>	<u>Applicant</u>		<u>Staff</u>		<u>Adopted</u>	
	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Present</u> <u>Rates</u>	<u>Authorized</u> <u>Rates</u>
<u>1988</u>						
Total Metered	\$31,580	\$60,160	\$31,580	\$60,160	\$31,580	\$42,835
<u>1989</u>						
Total Metered	32,560	79,580	32,560	79,580	32,560	44,490

TABLE 3

ExpensesTest Year 1988

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Purchased power	\$ 7,163	\$ 7,163	\$ 7,163
Employee Labor	8,198	8,198	8,198
Materials	630	630	630
Contract Work	685	685	685
Transportation Expenses	504	504	504
Other Plant Maint. Exp.	205	205	205
Office Salaries	4,094	4,094	4,094
Management Salaries	3,880	1,170	3,880
Employee Pension & Ben.	768	768	768
Uncollectibles	69	69	69
Office Services & Rental	1,343	1,343	1,343
Office Supplies & Expense	1,283	1,283	1,283
Professional Services	708	708	708
Insurance	1,303	1,303	1,303
Reg. Comm. Expense	1,100	1,100	1,100
General Expenses	<u>362</u>	<u>362</u>	<u>362</u>
Total	32,295	29,585	32,295

Test Year 1989

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Purchased power	\$ 7,375	\$ 7,375	\$ 7,375
Employee Labor	8,583	8,583	8,583
Materials	685	685	685
Contract Work	720	720	720
Transportation Expenses	530	530	530
Other Plant Maint. Exp.	223	223	223
Office Salaries	4,286	4,286	4,286
Management Salaries	4,100	1,225	4,100
Employee Pension & Ben.	808	808	808
Uncollectibles	71	71	71
Office Services & Rental	1,460	1,460	1,460
Office Supplies & Expense	1,394	1,394	1,394
Professional Services	741	741	741
Insurance	1,371	1,371	1,371
Reg. Comm. Expense	1,100	1,100	1,100
General Expenses	<u>363</u>	<u>363</u>	<u>363</u>
Total	33,810	30,935	33,810

TABLE 4-1

TaxesTest Years 1988 and 1989

<u>1988</u>			
<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Property Taxes	\$ 530	\$ 530	\$ 530
Payroll Taxes	<u>1,160</u>	<u>1,160</u>	<u>1,160</u>
Total	1,690	1,690	1,690

<u>1989</u>			
<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Property Taxes	\$ 550	\$ 550	\$ 550
Payroll Taxes	<u>1,190</u>	<u>1,190</u>	<u>1,190</u>
Total	1,740	1,740	1,740

TABLE 4-2

Income TaxesTest Year 1988

Item	<u>Applicant</u>		<u>Staff</u>		<u>Adopted</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Authorized Rates</u>
Oper. Rev.	\$31,580	\$60,160	\$31,582	\$60,163	\$31,580	\$42,835
Oper. Exp.	32,295	32,295	29,585	29,585	32,295	32,295
Taxes Other Than Income	1,690	1,690	1,687	1,687	1,687	1,687
Depreciation	<u>3,150</u>	<u>3,150</u>	<u>2,474</u>	<u>2,474</u>	<u>2,370</u>	<u>2,370</u>
Subtotal Ded.	37,135	37,135	33,746	33,746	36,352	36,352
State Taxable Income	0	23,025	0	26,417	0	6,483
State Income Tax	0	2,141	0	2,457	0	603
Federal Taxable Income	0	20,884	0	23,960	0	5,880
Federal Income Tax	0	3,133	0	5,870	0	882
Total Income Tax	0	5,274	0	8,327	0	1,485

TABLE 4-3

Income TaxesTest Year 1989

Item	<u>Applicant</u>		<u>Staff</u>		<u>Adopted</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Authorized Rates</u>
Oper. Rev.	\$32,560	\$79,580	\$32,564	\$79,583	\$32,560	\$44,491
Oper. Exp.	33,810	33,810	30,935	30,935	33,810	33,810
Taxes Other Than Income	1,740	1,740	1,739	1,739	1,739	1,739
Depreciation	<u>3,180*</u>	<u>3,180*</u>	<u>2,500</u>	<u>2,500</u>	<u>2,390</u>	<u>2,390</u>
Subtotal Ded.	38,940	38,730**	35,174	35,174	37,939	37,939
State Taxable Income	0	40,850**	0	44,409	0	6,552
State Income Tax	0	3,800**	0	4,130	87***	609
Federal Taxable Income	0	37,050**	0	40,279	0	5,943
Federal Income Tax	0	5,558**	0	10,410	0	891
Total Income Tax	0	9,358**	0	14,689	87	1,500

* Applicant's estimate at hearing of total depreciation expenses was inaccurately reported as \$3,390. The correct amount is \$3,180. For details refer to Table 6.

** This number is different from applicant's estimate at the hearing due to the error in applicant's depreciation estimate.

*** Prorated minimum.

TABLE 5

Utility Plant

Test Year 1988

<u>Item</u>	<u>Applicant's Estimate</u>	<u>Staff's Estimate</u>	<u>Adopted</u>
Beginning-of-Year Plant	\$120,848	\$109,158	\$109,158
<u>Additions</u>			
Storage Tank, Booster Station and Mains	-	-	-
Replacement of Pump	-	-	-
1,100 Feet of 6-inch Main and Hydrants	-	-	-
Relocate Two Bridge Crossings	-	-	-
Relocate Hydrant & Service	750	750	750
Replace 50 meters	2,500	2,500	2,500
Retirements	(1,000)	(1,000)	(1,000)
End-of-Year Plant	123,098	111,408	111,408
Average Plant	121,973	110,283	110,283

Test Year 1989

<u>Item</u>	<u>Applicant's Estimate</u>	<u>Staff's Estimate</u>	<u>Adopted</u>
Beginning-of-Year Plant	\$123,098	\$111,408	\$111,408
<u>Additions</u>			
Pipe Replacement	-	-	-
Retirement	-	-	-
End-of-Year Plant	123,098	111,408	111,408
Average Plant	123,098	111,408	111,408

(Red Figure)

TABLE 6

Depreciation Expense and ReserveTest Years 1988 and 1989

<u>Item</u>	<u>Applicant's Estimate</u>	<u>Staff's Estimate</u>	<u>Adopted</u>
<u>1988</u>			
Beginning-of-Year Depreciation	\$58,923	\$60,139	\$60,139
Depreciation Expense	3,027	2,367	2,367
Amortization of Contributions	123	107	107
Retirements	(1,000)	(1,000)	(1,000)
End-of-Year Depreciation	61,073	61,613	61,613
Average Depreciation Reserve	59,998	60,876	60,876
<u>1989</u>			
Beginning-of-Year Depreciation	\$61,073	\$61,613	\$61,613
Depreciation Expense	3,056*	2,393	2,393
Amortization of Contributions	123*	107	107
Retirements	(0)	(0)	(0)
End-of-Year Depreciation	64,252	64,113	64,113
Average Depreciation Reserve	62,663	62,863	62,863

(Red Figure)

* Applicant's estimate at hearing of total depreciation expenses (depreciation expense + amortization of contributions) was inaccurately reported as \$3,390. The correct amount is \$3,179.

TABLE 7

Rate Base

<u>Item</u>	<u>Applicant's Estimate</u>	<u>Staff's Estimate</u>	<u>Adopted</u>
<u>1988</u>			
Average Plant	\$121,970	\$110,280	\$110,280
Average Depreciation Reserve	(60,000)	(60,880)	(60,880)
Net Plant	61,970	49,400	49,400
Less: Contributions	(2,700)	(2,700)	(2,700)
Advances	(3,830)	(3,830)	(3,830)
Plus: Working Cash	4,320	4,320	4,320
Materials & Supplies	300	300	300
Rate Base	60,060	47,490	47,490

1989

Average Plant	\$123,100	\$111,410	\$111,410
Average Depreciation Reserve	(62,660)	(62,860)	(62,860)
Net Plant	60,440	48,550	48,550
Less: Contributions	(2,590)	(2,590)	(2,590)
Advances	(2,730)	(2,730)	(2,730)
Plus: Working Cash	4,530	4,530	4,530
Materials & Supplies	300	300	300
Rate Base	59,950	48,060	48,060

(Red Figure)

Rate-making Issues

Applicant accepted the staff's revenue and customer estimates. It also accepted staff's expense estimates with the exception of the management salary item. While the major portion of this expense is allocated to the Dunsmuir District, the differences between staff and applicant amount to \$2,710 in 1988 and \$2,875 in 1989 for Fort Jones.

As explained in the companion decision for the Dunsmuir District, we have adopted applicant's rather than staff's estimate for management salaries.

Another issue affects system depreciation. Staff allowed a depreciation rate of only 2.26%, the current rate. Applicant has requested a 2.6% rate.

Applicant believes that the staff made an error in attributing \$11,690 for 400 feet of new main to the Dunsmuir system. As noted in the tables below, there is a difference between staff and applicant in 1988 plant. Staff explained that this was not an erroneous attribution to the Dunsmuir District. Rather, staff intended to disallow the item because of inadequate documentation.

This decision explains our adoption of the staff's depreciation rate. We have also found that the staff's lower rate base is reasonable.

The "adopted" figures in the tables above represent the Commission's adopted revenues, expenses, and rate base for the test period which result in a rate increase of \$11,930 or 36.6% in 1989. Appendix B sets forth the impact on various classes of customer. A domestic ratepayer with a 5/8 x 3/4-inch meter who uses 1,500 cubic feet per month will experience an increase of \$2.70.

Discussion

Ratemaking

The decision in the companion proceeding, A.88-01-012, which establishes rates for the Dunsmuir District, explains more fully why we have not reduced the management salary allowance as recommended by staff. The amount adopted is based on the amount allowed by staff, and adopted by the Commission, in the applicant's previous Dunsmuir rate case. It is reasonable for the amount and quality of management applicant is expected to need in the future.

The rate base difference is not a misallocation of Fort Jones plant to Dunsmuir, as applicant assumed. Rather it stems from a conclusion by the staff auditor that some of the claimed Fort Jones plant was not supported by adequate documentation. He noted that the utility had recorded compensation to the owners for services by the backhoe company without identifying the project worked on. It was his opinion that such records were inadequate to support the claim and recommended disallowance. We have adopted his recommendation.

We should emphasize that our finding on rate base for this proceeding is not intended to prohibit applicant from presenting an improved showing in future proceedings.

Applicant claims that the Fort Jones plant is very old and will soon need replacement. It concludes therefore that the current depreciation rate ought to be increased. It concedes that it has not made the kind of detailed study normally needed for an increase in depreciation rate, but argues that such a study cannot be economically justified in this case.

Staff argues that an increase in depreciation rate should not be permitted without a study.¹

While there is some merit to applicant's claim that the expense of a formal study cannot be economically justified, we need more evidence to support a finding adopting the proposed increase. The depreciation rate will not be increased.

If adequate data were available, the theory of remaining life depreciation could justify an increase in rate of depreciation for plant which is likely to be prematurely replaced. We note, however, that there are alternative ways to deal with such replacements, for example, by amortization after the retirement occurs. Paragraph 4.A through C of the General Instructions for the Uniform System of Accounts for Class B, C, and D water utilities is quoted in the footnote.²

1 This issue will be of little more than academic interest if applicant is able to sell its plant to the City. City expressed an interest in purchasing at the hearing and it is our understanding that negotiations are in progress.

2 4. Accounting Instructions - Depreciation

- A. Depreciation charges shall be computed using the straight-line remaining life method (see definition (12)), and composite depreciation rates (see definition (2)). The rates shall be reviewed periodically and adjusted as required, so that the depreciation accrual will bear a reasonable relationship to the remaining life, the estimated net future salvage, cost of plant in service and to the balance of accumulated depreciation accrued in prior periods.
- B. When an item of water plant is retired, Account 108, Accumulated Depreciation of Water Plant, shall be charged and the appropriate plant accounts shall be credited with the entire recorded original cost of plant retired regardless of the amount of depreciation.

(Footnote continues on next page)

Applicant originally requested an 11% rate of return. It did not, however, challenge staff's recommendation for 10.5% which is the midpoint of the normal range of rate of return for 100% equity water companies. We have adopted 10.5% as a reasonable rate of return for the test period.

Rate Design

Applicant's current rate structure consists of minimum charges plus four rate blocks. There is no dispute over the proper rate design to be adopted for the future. The Commission in Decision 86-05-064 in I.84-11-041 established a new rate design policy for water utilities.

(Footnote continued from previous page)

which has been accumulated for this particular item of plant, except as provided in paragraph C, following. Account 108, Accumulated Depreciation of Water Plant, also shall be charged with the costs of removal of retired plant, and shall be credited with the salvage value, sales price or other amounts recovered from plant retired. Note that Account 108, rather than Account 108.1, Accumulated Amortization of SDWBA Loan, shall be charged with retirements of SDWBA financed plant.

- C. In rare instances the unexpected early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph B above. In such instances the Commission may authorize or order the loss on retirement (less any tax savings) to be charged to income in the current year or transferred to Account 180, Deferred Charges, and amortized in future periods. Such accounting treatment shall be used only when specifically authorized or directed by the Commission.

This policy calls for reducing the number of rate blocks. If practicable, there should be only a single block. Up to 50% of a utility's fixed costs are to be covered by a service charge. The charges set forth in the Appendixes conform to that policy.

Service

The staff indicates that there is no significant customer dissatisfaction with applicant's service, except for concern over a repeat of supply shortages which occurred in 1977 and 1987. The shortages were countered by voluntary conservation measures.

This source of supply problem is complicated by very high unaccounted-for water losses. While staff and utility dispute the exact amount of "lost" water, there is no dispute that the utility needs to do much better than it did before the advice letter was filed.

Applicant contends that much of the water is not actually lost. It argues that its recent program to locate and fix stuck meters will account for significant quantities of water which are delivered but not billed for. It also contends that a recent leak detection program has been successful in reducing actual losses.

Staff is skeptical about the effectiveness of the utility's programs. It recommends that applicant hire a qualified engineer to make a long-range plan to recondition the system. We do not adopt this recommendation. In our view, such an expenditure would be justified only if applicant were likely to continue as a public utility indefinitely. However, if the City purchases the system in the near future, it should be free to draw up its own long-range plans to deal with the overaged system.

There is also a possibility that applicant's existing programs will be effective enough to reduce unaccounted-for water to more satisfactory levels, at least on a temporary basis. In that event, there would be less need to incur the expense of a study.

In our opinion, the past history of unaccounted-for losses is symptomatic of the lackadaisical management practices described more fully in the decision on Dunsmuir rates. A situation which combined inadequate storage, water losses possibly as great as 51%, and a source of supply which cannot be relied on to meet demands in drought years, called for prompt, effective utility action in years past. This management's reaction was anything but prompt.

Its recent efforts to end leaks and deal with meter problems seem to be well planned and reasonably executed. However, since they were instituted so recently, we do not have enough information to judge their effectiveness.

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. The quantities appearing in the adopted columns in the tables above and in Appendix C are reasonable estimates of applicant's operating results for 1988 and 1989.
2. Applicant's reasonable cost of equity capital, and thus its rate of return as a 100% equity water utility, is 10.5%.
3. The rates set forth in Appendix A will produce enough revenue to cover expenses, depreciation, and taxes, and earn 10.5% on applicant's rate base in 1989.
4. The claimed investment of \$11,690 in plant is not adequately documented to justify allowing it in rate base.
5. There is insufficient evidence to support a finding that applicant's depreciation rate should be increased.
6. Applicant has inadequate storage. In recent years it has experienced very high unaccounted-for water losses. It has recently begun a program to fix leaks and to ensure that all water delivered passes through working meters. It is too soon to judge the effectiveness of this program.
7. If applicant had been adequately managed, it would have instituted the program sooner.

8. The staff's proposed number of hours for management compensation are too low. The staff's proposed allowance for management compensation assumes that applicant needs no more financial management than it received in past years. This is not the case.

9. The amount allowed for management compensation in the last rate case is, when adjusted for inflation, sufficient to provide a reasonable compensation for future financial and operational management. (See discussion in companion decision in Dunsmuir, A.88-01-013.)

10. The City of Fort Jones has indicated plans to purchase the water system.

11. While there is a possibility that the City may purchase, we should not require applicant to expend funds on an independent engineering survey of the system.

Conclusions of Law

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

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

3. Because of the need for rate relief, it should be effective today.

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.

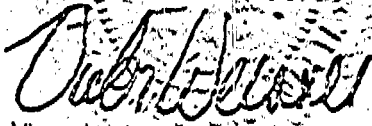
2. Applicant shall correct its books of account to reflect the plant disallowances adopted herein.

This order is effective today.

Dated FEB 2 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 Weissor, Executive Director

AS

APPENDIX A
Page 1

Schedule No. FJ-1

Fort Jones Tariff Area

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Fort Jones and vicinity, Siskiyou County.

RATES

Quantity Rate:	Per Meter Per Month	
All Water, per 100 cu.ft.....	\$ 0.54	(C)
Service Charge:		(C)
For 5/8 x 3/4-inch meter.....	\$ 3.60	
For 3/4-inch meter.....	5.40	
For 1-inch meter.....	5.80	
For 1-1/2-inch meter.....	6.80	
For 2-inch meter.....	10.00	
For 3-inch meter.....	14.00	

The Service Charge is a readiness-to-serve charge (C)
 which is applicable to all metered service, and to
 which is to be added the monthly charge computed
 at the Quantity Rate. (C)

APPENDIX A
Page 2

Schedule No. FJ-9ML

Fort Jones Tariff Area

TANK TRUCK WATER SERVICE

APPLICABILITY

Applicable to all measured water service furnished for road sprinkling by delivery to tank trucks.

TERRITORY

Fort Jones and vicinity, Siskiyou County.

RATE

Per Month

For all water delivered, per 100 cu.ft. \$ 0.166 (I)

SPECIAL CONDITION

Service under this schedule shall be limited to sprinkling of roads and streets by the appropriate public authorities.

(END OF APPENDIX A)

APPENDIX B

Dunsmuir Water Company
Fort Jones District

COMPARISON OF RATES

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

<u>Usage</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percent</u>
0	\$ 3.60	\$ 3.60	\$0.00	0.0%
5	3.60	6.30	2.70	75.0%
10	6.30	9.00	2.70	42.9%
15(Avg.)	9.00	11.70	2.70	30.0%
20	11.70	14.40	2.70	23.1%
100	38.10	57.60	19.50	51.2%

(END OF APPENDIX B)

Appendix C
Page 1

Dunsmuir Water Company
Fort Jones District

ADOPTED QUANTITIES
Test Years 1988, 1989

Net-to-gross Multiplier:	-
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-32 -3 phase
Effective Date of Schedule - 1/87

	<u>TY 1988</u>	<u>TY 1989</u>
kWh Used Total	72,887	75,442
Total Demand kW	457	457
\$/kWh	\$0.08303	\$0.08303
\$	\$ 6,052	\$ 6,264
\$ - Service Charge (\$11/Mo)	\$ 132	\$ 132
\$ - Demand Charge (\$1.30/kW)	\$ 594	\$ 594
\$ - Demand Charge - Gen & Trans (\$0.81/kW)	\$ 370	\$ 370
\$ - Energy Comm. Charge (\$0.0002/kWh)	\$ 15	\$ 15
\$ - Total Purchased Power	\$ 7,163	\$ 7,375
2. Purchased Water		None
3. Pump Tax - Replenishment Tax		None
4. Payroll- Total	\$ 16,172	\$ 16,969
Payroll Taxes	\$ 1,160	\$ 1,190
5. Ad Valorem Taxes	\$ 530	\$ 550
Tax Rate	1.0986%	1.0986%
Assessed Value	\$ 48,265	\$ 50,165
6. Water Testing (In Other Contract Work)	\$ 651	\$ 685

APPENDIX C
Page 2

Service Connections

Flat Rate	0	0
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Metered Rate

5/8 x 3/4-inch meter	\$284	\$294
1-inch meter	7	7
1-1/2-inch meter	4	4
2-inch meter	<u>5</u>	<u>5</u>

Total	300	310
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Metered Water Sales Used to Design Rates

56,398 Ccf

(END OF APPENDIX C)

In our opinion, the past history of unaccounted-for losses is symptomatic of the lackadaisical management practices described more fully in the decision on Dunsmuir rates. A situation which combined inadequate storage, water losses possibly as great as 51%, and a source of supply which cannot be relied on to meet demands in drought years, called for prompt, effective utility action in years past. This management's reaction was anything but prompt.

Its recent efforts to end leaks and deal with meter problems seem to be well planned and reasonably executed. However, since they were instituted so recently, we do not have enough information to judge their effectiveness.

Findings of Fact

1. The quantities appearing in the adopted columns in the tables above and in Appendix C are reasonable estimates of applicant's operating results for 1988 and 1989.
2. Applicant's reasonable cost of equity capital, and thus its rate of return as a 100% equity water utility, is 10.5%.
3. The rates set forth in Appendix A will produce enough revenue to cover expenses, depreciation, and taxes, and earn 10.5% on applicant's rate base in 1989.
4. The claimed investment of \$11,690 in plant is not adequately documented to justify allowing it in rate base.
5. There is insufficient evidence to support a finding that applicant's depreciation rate should be increased.
6. Applicant has inadequate storage. In recent years it has experienced very high unaccounted-for water losses. It has recently begun a program to fix leaks and to ensure that all water delivered passes through working meters. It is too soon to judge the effectiveness of this program.
7. If applicant had been adequately managed, it would have instituted the program sooner.