

Decision 89 06 033 JUN 21 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

| | | |
|--------------------------------------|---|-------------------------|
| Application of Cold Springs Water |) | |
| Company, a California corporation, |) | |
| for authority to increase rates |) | |
| and charges for water service to its |) | Application 88-08-033 |
| customers by \$26,300 for 1988, |) | (Filed August 16, 1988) |
| \$33,030 in 1989, and \$37,130 for |) | |
| 1990 under Section 454 of the Public |) | |
| Utilities Code. |) | |

Reginald H. Knaggs and Pete Kerns, for Cold Springs Water Company, applicant.
Arthur B. Jarrett, for the Commission Advisory and Compliance Division.

OPINION

Summary

This decision grants a rate increase of \$17,193 or 19.16% over existing rates for the remaining months of 1989; there will be a further increase of \$2,701 or 2.5% for 1990. A flat rate customer who now pays \$17.13 per month for service will experience an increase of \$3.28 per month in 1989 and \$0.51 per month in 1990. A 5/8 x 3/4-inch metered customer using an average of 354 cubic feet of water per month (the adopted average consumption) now pays a monthly bill of \$17.82. Such a customer will experience an increase in its monthly bill of \$3.41 in 1989 and \$0.53 in 1990.

The Application

By this application, Cold Springs Water Company (Cold Springs) sought increases, as specified in the caption, in its rates for water service. These increases were expected to produce a rate of return ranging between 6.1 and 8.9% for the test years. Applicant's present basic rates were established by Resolution W-3245, June 5 1985. A Safe Drinking Water surcharge, authorized

by Decision (D.) 83-12-004, adds \$5.00 per month to each customer's bill.

The Applicant

The service territory of Cold Springs is in Tuolumne County near Long Barn. It serves approximately 190 metered and 240 flat rate customers in the Cold Springs and Peter Pam subdivisions. The Cold Springs subdivision was a promotion of the Kerns family, which owns the utility stock. Pete Kerns, who appeared, manages and has done most of the engineering for the water system. Other family members are employed to operate the system and to do the office work.

The subdivisions served are of the rural resort type, located in areas likely to receive much snowfall in the winter. The majority of the customers live there only in summer months. Staff notes that consumption averages 3.54 Ccf per month, which is low for this type of service area.

Proceedings

After the application was filed and noticed, three customer letters were received. They complained of the size of the increase. They also mentioned incomplete utility projects and the failure to make improvements promised during the last increase.

During its investigation, the Water Utilities Branch of the Commission Advisory and Compliance Division (Branch) interviewed nine customers. While six of the customers interviewed were critical of high utility rates, there was a general consensus that service was good.

A public meeting was held on September 19, 1988, with representatives of Branch and utility attending. Seven customers were present. Customers were concerned about water wasted by flat rate customers. The utility responded that it was making progress to an all-metered system; it plans to meter known water-wasters first.

An evidentiary and public participation hearing was held in San Francisco before Administrative Law Judge (ALJ) Gilman on December 1 and 2, 1988. A customer made a statement contending that the proposed rates would be too high in comparison with water rates in urban water utilities. Three members of the Kerns family testified. A staff witness presented the results of an independent evaluation of the ratemaking issues. The hearing was then continued to February 8, 1989.

On the last day of hearing, Branch and applicant announced that they had reached a stipulation on all ratemaking issues, which would be detailed in a late-filed exhibit. Branch also announced that it had no objection on either procedural or substantive grounds to a proposal for a deviation from the main extension rule, allowing applicant to perform as set forth in the non-standard extension contract entered into by applicant.

The matter was submitted upon receipt of a joint late-filed exhibit on March 8, 1988. The late-filed exhibit indicates that a dispute over working cash has not been fully resolved.

The tables attached to the decision as Appendix A are taken from the late-filed exhibit. The figures shown in the Branch column are adopted to fix applicant's new rates.

Issues

The Main Extension

Since 1985, applicant has been engaged in a main construction project involving a 10-inch main. The staff report indicated that approximately \$27,000 of the advances for the main extension project had been expended. However, the applicant informed the staff after the December 1 and 2 hearings, that all of the advance money (\$44,174) had been expended. It stated that the remaining construction for this project would be performed with utility funds. The joint-filed Exhibit 7 reflects this fact in

both utility plant and advances; the revenue requirement reflects the \$44,174 having been expended.

The following parties have development projects which will be served by the main: Cold Springs Development, Kerns Development, and Terry and Jill Northcutt. The first two entities are Kern family enterprises.

On June 22, 1986, applicant entered into a main extension contract with the three developers. The contract is not in accordance with the Commission's Standard Main Extension Rule No. 15, and Cold Springs does not have Commission approval for such a deviation. On February 6, 1989, applicant submitted a letter to the assigned ALJ requesting permission from the Commission to deviate from the Standard Main Extension Rule for this contract. After a detailed review of the contract, Branch determined that the deviation will not adversely affect existing utility customers; it therefore recommends Commission approval of the request for deviation.

Advances for Construction

As of December 31, 1987, applicant's records indicated a balance of \$54,914 in its advances for construction account. This amount is the net of advances made to applicant for six main extension contracts entered into between 1965-1982, totalling \$74,021, less refunds of \$19,107. The refunds were made in various amounts from 1966 to 1979, as required by the main extension rule in effect during that period. The \$54,914 balance must be adjusted to reflect the transfer of unrefunded advance balances to Contributions on three of the main extension contracts entered into from 1965 through 1968. The amount of the adjustment was calculated under the main extension rule in effect in 1965 through 1968 (D.82-01-062) which limited the refund period to 20 years. After 20 years, the unrefunded amount was to be transferred to Contributions. This amount is \$34,074, leaving an unrefunded balance of \$20,840 for the three remaining contracts.

As indicated above, refunds by Cold Springs stopped in 1979; the utility concedes that its obligation to make such refunds was inadvertently overlooked after that date. Applicant has now identified the exact amount of refunds which should have been made after 1979 on the unrefunded \$20,840 balance indicated above and plans to make lump sum payments to the appropriate parties in the near future. Applicant proposes to make the corresponding ratemaking adjustments to its rate base in its next general rate increase request. Branch has no objection to this proposal as long as the refund amounts are in agreement with the refund requirements of D.82-01-062.

Income Taxes

Both Branch and applicant determined income taxes in the test years reflecting current rates under the Federal Tax Reform Act of 1986 and the corresponding state rates for 1989 and 1990. Computations of state franchise and federal income taxes for 1989 and 1990 are shown in Table II.

Working Cash

Branch based its final estimate of working cash in the test years on a Commission policy memorandum, "Revised Working Cash Allowance Procedure for Small Water Utilities," adopted on January 27, 1989. Its initial working cash allowance was based on the Commission's Standard Practice U-16, which was applicable to all classes of water utility during most of the time during which this matter was being tried. Both its initial estimate and its final estimate recommended an allowance of zero dollars for working cash.

Applicant's estimates of \$4,580 in 1989 and \$4,900 in 1990 for working cash were also assertedly based on U-16. Branch does not claim that applicant misapplied the U-16 formula. Until the last day of hearing, the dispute was between different methods of applying U-16. On the last day of hearing, the dispute became whether the old or new systems produced the fairer result.

Cold Springs' representative, who has a great deal of practical experience with small water companies, believes that it is highly unrealistic to expect a utility such as Cold Springs to be operated without any working cash. He asserts that the figure produced by the older methodology is much more realistic. Cold Springs, therefore, argues that the U-16 formula should be used to develop rate base in this application.

We disagree with Cold Springs because the older method does not justify an allowance for working cash. According to its tariff, applicant is to bill and collect for flat rate service once a year, in advance. The service charge portion of its metered rates is to be collected on the same basis. Only permanent residents are free to elect to pay less than one year in advance. Even permanent customers who make such an election must pay at least one month in advance. The only option open to nonpermanent residents is to pay in two equal installments in advance.

Even without evidence to show the numbers of customers who have elected each of the available options, we know that applicant should approach each month of operation with a sizable amount of advance payments on its books. Unless it were obligated to pay its expenses in advance with the same frequency, it would not be entitled to a positive working cash allowance under either the Standard Practice or the new policy. Applicant's evidence does not show that it must pay any significant amount of costs in advance. We have therefore found that applicant has not justified any allowance for working cash.

Findings of Fact

1. The estimates set forth in the Adopted Quantities table (Appendix D) are just and reasonable, and should be adopted.
2. The rates set forth in Appendixes B and C are just and reasonable for test years 1989 and 1990. Appendix C rates should become effective on January 1, 1990.

3. Applicant has not justified the need for an allowance for working cash.

4. There should be no adjustment in this case for overdue payments on main extension contracts.

5. The deviation from the main extension rule will not be adverse to the public interest.

6. Because of unavoidable delays in processing this application, the decision should be effective today.

Conclusions of Law

1. Applicant should be authorized to depart from the main extension rule and to comply with the non-standard extension contract set forth in the file.

2. Applicant should be authorized to charge the rates set forth in Appendix B. It should be authorized to begin charging the rates set forth in Appendix C on January 1, 1990.

ORDER

IT IS ORDERED that:

1. Cold Springs Water Company (applicant) is authorized to file, on or after the effective date of this order, the revised rate schedules for 1989 shown in Appendix B. This filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1989, applicant is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1990 shown in Appendix C attached to this order, or to file a lesser increase in the event that the rate of return on rate base adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1989, exceeds 10.50%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the Branch to determine their conformity with this

order and shall go into effect upon the Branch's determination of conformity. Branch shall inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. Applicant is authorized to depart from the main extension rule and to comply with the non-standard extension contract set forth in the file.

This order is effective today.

Dated JUN 21 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OMANIAN
PATRICIA M. ECKERT
Commissioners

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



Victor Weisner, Executive Director

APPENDIX A
Page 1

TABLE I

SUMMARY OF EARNINGS

| Item | 1989 | | 1990 | |
|---------------------------|-----------|-----------|-----------|-----------|
| | Applicant | Branch | Applicant | Branch |
| Operating Revenues | \$107,554 | \$106,930 | \$111,584 | \$110,916 |
| <u>Operating Expenses</u> | | | | |
| Purchased Power | 14,200 | 14,200 | 14,500 | 14,500 |
| Other Vol. Exp. | 270 | 270 | 285 | 285 |
| Employee Labor | 21,000 | 21,000 | 22,070 | 22,070 |
| Materials | 1,400 | 1,400 | 1,500 | 1,500 |
| Contract Work | 5,512 | 5,512 | 5,795 | 5,795 |
| Trans. Exp. | 4,300 | 4,300 | 4,600 | 4,600 |
| Other Rel. Maint. | 900 | 900 | 1,000 | 1,000 |
| Office Salary | 7,938 | 7,938 | 8,345 | 8,345 |
| Management Salary | 13,370 | 13,370 | 14,045 | 14,045 |
| Office Rent | 5,255 | 5,255 | 5,535 | 5,535 |
| Office Supplies | 1,640 | 1,640 | 1,725 | 1,725 |
| Prof. Services | 1,310 | 1,310 | 1,380 | 1,380 |
| Insurance | 9,000 | 9,000 | 10,000 | 10,000 |
| Reg. Comm. Exp. | 700 | 700 | 700 | 700 |
| General Exp. | 440 | 440 | 460 | 460 |
| Subtotal | 87,235 | 87,235 | 91,940 | 91,940 |
| Depreciation | 6,227 | 6,227 | 6,242 | 6,242 |
| Property Taxes | 906 | 906 | 926 | 926 |
| Payroll Taxes | 3,639 | 3,639 | 3,801 | 3,801 |
| Income Taxes | 2,187 | 2,044 | 1,987 | 1,834 |
| Total Oper. Expenses | 100,194 | 100,051 | 104,896 | 104,743 |
| Net Oper. Revenue | 7,360 | 6,879 | 6,688 | 6,173 |
| <u>Rate Base</u> | | | | |
| Avg. Util. Plant | 336,356 | 336,356 | 336,926 | 336,926 |
| Avg. Depr. Res. | 175,196 | 175,196 | 183,465 | 183,465 |
| Net Plant | 161,160 | 161,160 | 153,461 | 153,461 |
| Less: Advances | 62,569 | 62,569 | 61,526 | 61,526 |
| Contrib. | 35,079 | 35,079 | 35,145 | 35,145 |
| Plus: Wkg. Cash | 4,580 | 0 | 4,900 | 0 |
| M & S | 2,000 | 2,000 | 2,000 | 2,000 |
| Avg. Depre. Rate Base | 70,092 | 65,512 | 63,690 | 58,790 |
| Rate of Return | 10.50% | 10.50% | 10.50% | 10.50% |

APPENDIX A
Page 2TABLE II
INCOME TAX CALCULATIONS

| | <u>1989</u> | |
|------------------------------|------------------|---------------|
| | <u>Applicant</u> | <u>Branch</u> |
| Operating Revenues | \$107,554 | \$106,930 |
| Expenses | 87,235 | 87,235 |
| Taxes Other Than Income | 4,545 | 4,545 |
| Depreciation Expense | 6,227 | 6,227 |
| Taxable Income for State Tax | 9,547 | 8,923 |
| State Tax (@ 9.3%) | 888 | 830 |
| Taxable Income for FIT | 8,659 | 8,093 |
| Federal Income Tax (@ 15%) | 1,299 | 1,214 |
| Total Income Tax | 2,187 | 2,044 |

| | <u>1990</u> | |
|------------------------------|------------------|---------------|
| | <u>Applicant</u> | <u>Branch</u> |
| Operating Revenues | \$111,584 | \$110,916 |
| Expenses | 91,940 | 91,940 |
| Taxes Other Than Income | 4,727 | 4,727 |
| Depreciation Expense | 6,242 | 6,242 |
| Taxable Income for State Tax | 8,675 | 8,007 |
| State Tax (@ 9.3%) | 807 | 745 |
| Taxable Income for FIT | 7,868 | 7,262 |
| Federal Income Tax (@ 15%) | 1,180 | 1,089 |
| Total Income Tax | 1,987 | 1,834 |

(END OF APPENDIX A)

APPENDIX B
Page 1

Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Cold Springs and Peter Pam Subdivision, and vicinity, located approximately 8 miles east of Long Barn, Tuolumne County.

RATES

| Annual Service Charge: | <u>Per Meter Per Year</u> | <u>Per Year Surcharge*</u> |
|--------------------------------|-------------------------------|--------------------------------|
| For 5/8 x 3/4-inch meter | \$ 204.60 (I) | \$ 60.00 |
| For 3/4-inch meter | 284.90 | 90.00 |
| For 1-inch meter | 441.35 | 150.00 |
| For 1-1/2-inch meter | 792.40 | 300.00 |
| For 2-inch meter | 1,023.10 (I) | 480.00 |

| Quantity Rates: | <u>Per Meter Per Month</u> | |
|--------------------------------|--------------------------------|-----|
| All Water, per 100 cu.ft. | \$ 1.18 | (C) |

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.

*SDWBA SURCHARGE

Note: This surcharge is in addition to the regular annual water bill. The total annual surcharge must be identified on each bill. This surcharge is specifically for the payment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 93138.

*SDWBA - Safe Drinking Water Bond Act.

(Continued)

APPENDIX B
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Schedule No. 1

ANNUAL GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. Meters may be read and quantity charges billed during the winter season at intervals greater than three months. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.

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

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Schedule No. 2

ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Cold Springs and Peter Pam Subdivision, and vicinity, located approximately 8 miles east of Long Barn, Tuolumne County.

RATES

| | <u>Per Service Connection</u> <u>Per Year</u> | |
|---|--|-------------------|
| | <u>Charge</u> | <u>*Surcharge</u> |
| For a single-family residence or business establishment including premises | \$244.95 | (I) \$60.00 |
| For each additional single-family residential unit on the same premises served from the same service connection | \$209.70 | (I) 51.50 |

*SDWEA SURCHARGE

Note: This surcharge is in addition to the regular charge of \$244.95 per 3/4 (c) inch service connection, per year. The total yearly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 92132. ✓

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than 3/4-inch diameter.

(Continued)

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Schedule No. 2

ANNUAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Contd.)

2. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Annual 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 meter service charge for the same period shall be made on or before that day.

3. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will be discontinued and will not be restored until the total annual charge has been paid.

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

(END OF APPENDIX B)

APPENDIX C

Each of the following increases in rates may be put into effect on or after January 1, 1990 by the following rate schedules which add the appropriate increase to the rate effective on that date.

Schedule No. 1

| Annual Service Charge: | <u>Per Meter Per Year</u> |
|--------------------------------|---------------------------|
| For 5/8 x 3/4-inch meter | \$ 5.10 |
| For 3/4-inch meter | 7.10 |
| For 1-inch meter | 11.00 |
| For 1-1/2-inch meter | 19.80 |
| For 2-inch meter | 25.55 |

| Quantity Rates: | <u>Per Meter Per Month</u> |
|--------------------------------|----------------------------|
| All water, per 100 cu.ft. | \$ 0.03 |

Schedule No. 2

| Rates: | <u>Per Service Connection Per Year</u> |
|---|--|
| For a single-family residence or business establishment including premises | \$6.10 |
| For each additional single-family residential unit on the same premises served from the same service connection | \$5.25 |

(END OF APPENDIX C)

APPENDIX D
Page 1

ADOPTED QUANTITIES

Name of Company: Cold Springs Water Company

1. Net-to-Gross Multiplier: 1.297
2. Federal Tax Rate: 15%
3. State Tax Rate: 9.3%
4. Purchased Power:

| | <u>1989</u> | <u>1990</u> |
|---|---------------|---------------|
| Pacific Gas and Electric Company Rate Schedule | A-1 | A-1 |
| Effective Date of Schedule | 5/17/88 | 5/17/88 |
| Quantity Charge: | | |
| KWh Used Total | 142,604 | 145,735 |
| KWh Used-Summer | 79,188 | 80,927 |
| KWh Used-Winter | 63,416 | 64,808 |
| \$/KWh - Summer | 0.10404 | 0.10404 |
| \$/KWh - Winter | 0.08550 | 0.08550 |
| Service Charge: | | |
| \$/Pump/Month - Single Phase | 5.00 | 5.00 |
| \$/Pump/Month - Polyphase | 6.25 | 6.25 |
| No. of Pumps - Single Phase | 4 | 4 |
| No. of Pumps - Polyphase | 4 | 4 |
| Total Purchased Power | \$14,200 | \$14,500 |
| 5. Payroll: | | |
| Employee Labor | \$21,000 | \$22,070 |
| Office Salaries | 7,938 | 8,345 |
| Management Salaries | <u>13,370</u> | <u>14,045</u> |
| Total Payroll | \$42,308 | \$44,460 |
| Payroll Taxes | \$ 3,639 | \$ 3,801 |
| 6. Ad Valorem Taxes: | \$ 906 | \$ 926 |
| Effective Tax Rates | 1.00% | 1.00% |

(Continued)

APPENDIX D
Page 2

| | <u>1989</u> | <u>1990</u> |
|---|-------------|--------------|
| 7. Water Testing: | \$1,844 | \$1,938 |
| 8. Insurance: | | |
| Liability | \$6,980 | \$ 7,750 |
| Workman's Comp. | 1,110 | 1,235 |
| Vehicle | <u>910</u> | <u>1,015</u> |
| Total | \$9,000 | \$10,000 |
| 9. Adopted Number of Flat Rate Services: | | |
| Single Family | 240 | 239 |
| Additional units on above connections | 0 | 0 |
| 10. Adopted Services by Meter Size: | | |
| Meter Size (inches) | | |
| 5/8 x 3/4 | 189 | 195 |
| 3/4 | 0 | 0 |
| 1 | 0 | 0 |
| 1-1/2 | 0 | 0 |
| <u>2</u> | <u>0</u> | <u>0</u> |
| Total | 189 | 195 |
| 11. Metered Water Usage to Design Rates (Ccf) | 8,029 | 8,284 |

(END OF APPENDIX D)

APPENDIX B
Page 3

Schedule No. 2

ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Cold Springs and Peter Pam Subdivision, and vicinity, located approximately 8 miles east of Long Barn, Tuolumne County.

RATES

| | <u>Per Service Connection</u> <u>Per Year</u> | |
|---|--|-------------------|
| | <u>Charge</u> | <u>*Surcharge</u> |
| For a single-family residence or business establishment including premises | \$244.95 | (I) \$60.00 |
| For each additional single-family residential unit on the same premises served from the same service connection | \$209.70 | (I) 51.50 |

*SDWBA SURCHARGE

Note: This surcharge is in addition to the regular charge of \$205.55 per 3/4 (c) inch service connection, per year. The total yearly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 93138.

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than 3/4-inch diameter.

(Continued)