

Decision 89 08 001 AUG 3 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
Country Lane Water Company, Inc., a)	
Public Utility Water Corporation)	Application 88-08-064
for a general increase for water)	(Filed August 31, 1988)
service in the community of Onyx,)	
California.)	

Dale Seffer and John Tootle, for Country Lane Water Company, Inc., applicant.
Daniel R. Raige, for the Commission Advisory and Compliance Division, Water Utilities Branch.

OPINION

Country Lane Water Company, Inc. (Country Lane) seeks authority to increase its rates for water service. Specifically it requests the following:

1. A general rate increase in two steps with the first step designed to increase its rates by \$28,290 or 53.1% to yield a rate of return of 13.5% on its 1988 rate base, and a second step increase of \$7,000 or 8.6% to yield a rate of return of 10.5% on its 1989 rate base;
2. A determination that a rate of return of 13.5% is reasonable;
3. Authority to modify its tariffs to increase the reconnection charges included in Rule No. 11 from \$10 to \$25, provide for new service connection charges ranging from \$200 for a 5/8 by 3/4-inch meter to \$400 for a 2-inch meter, and provide for a hydrant rate schedule of \$25 per connection plus \$1.25 per 100 cubic feet of water used; and
4. Authority to discontinue its flat rate tariff Schedule No. 2.

Its present rates which were authorized by Decision (D.) 84-07-014 have been in effect since August 1, 1986. Country Lane was authorized by D.85-07-027 to assess a surcharge specifically for the purpose of repayment of a small Business Administration loan. The surcharge is not an issue in this proceeding. It will not be increased or decreased by this decision.

Background

Country Lane serves 256 customers in Tract 2965 in the vicinity of Onyx, located in Kern County. Its system consists of three wells which pump water from local ground water aquifers to overhead storage tanks and booster pumps which further pressurize the water through two hydropneumatic pressure tanks into distribution mains for delivery to its metered customers. Country Lane has a storage capacity of about 284,250 gallons in six tanks and adequate pumping capacity (about 500 to 550 gpm) in its system. Other than 1,320 lineal feet of 4-inch galvanized mains and 900 feet of 2-inch galvanized mains that would eventually have to be replaced in the system, the utility's water supplies, storage, and system pressures meet the Public Utilities (PU) Code's General Order (GO) 103 requirements. Country Lane's water supplies are 100% produced from its water wells, the utility having no auxiliary or standby connection to adjacent utilities. Country Lane's water supplies presently meet the water quality standards of the Department of Health Services (DHS). There is no expected shortage of supply because of drought or other reasons.

Country Lane's operating staff consists of three people; Mr. and Mrs. Timothy Witt who manage the office, handle accounting records, prepare and post bills by hand to customers, and investigate complaints, and one serviceman who assists in operation and maintenance of the system. Country Lane contracts out major work such as pump replacement, water sampling and testing, and its

accounting records are maintained by Mrs. Witt and an outside accounting firm.

Subsequent to the filing of the application the staff of the Commission's Water Branch (Water Branch staff) conducted an examination of Country Lane's operations. The results of the Water Branch staff's examination together with its recommendations were set forth in a report entitled "Report on Application (A.) 88-08-064 General Rate Increase for Country Lane Water Company". The report was transmitted to Country Lane on or about February 17, 1989.

Public participation hearings for the receipt of evidence and/or statements were held before Administrative Law Judge (ALJ) O'Leary in the afternoon and evening of March 7, 1989 at Weldon.

At the afternoon hearing, one person testified and two people made statements. At the evening hearing, four people made statements. All of the people who participated at the hearings were opposed to the increase. One person was concerned with the quality of the water. She testified that on three occasions she was notified that the bacteriological quality of the water served by Country Lane did not meet the drinking water standards specified in the California Domestic Water Quality and Monitoring Regulations. She also presented Exhibit 1 which consisted of copies of the three notices she received. Exhibit 1 discloses that the notices covered the following months: July 1986, July, September and October 1987.

Evidentiary hearings were held on March 8, 1989 at Weldon. The matter was submitted on April 5, 1989, with the filing of the transcript.

At the evidentiary hearing evidence was presented by Mr. Timothy Witt of the applicant and Mr. Gary Loo, an associate utilities engineer of the Water Branch staff. Mr. Witt testified that he was the president of Country Lane and that he was willing to accept the recommendations set forth in the report that was

prepared by the Water Branch staff provided it was amended with respect to the amount of water used by the Kern County Parks and Recreation Department. With respect to the water served by Country Lane not meeting the drinking water standards specified in the California Domestic Water Quality and Monitoring Regulations, Mr. Witt's testimony can be summarized as follows: the problem occurred in well #1 which is the oldest well on the system; over the years the cement platform at the top of the well had cracked and contaminants fell through the cracks into the well; the problem was solved by cleaning the cracks and filling them with tar to prevent further contamination. Mr. Witt also testified that the repairs apparently satisfied the State of California Department of Health Services, the state agency responsible for overseeing the quality of water dispensed by water utilities, since further notification of failure had not been received.

Water Branch Staff Evidence

Mr. Gary Loo, an associate utilities engineer, employed in the Commission's Advisory and Compliance Division, Water Utilities Branch testified and presented the report which was received in evidence as Exhibit 2. Mr. Loo testified that because of certain material brought up by the applicant it was necessary to make certain corrections to Exhibit 2. The corrections were quite extensive therefore the ALJ required the Branch to submit a late filed exhibit (Exhibit 3) setting forth all revisions.

Table 1 sets forth the branch's summary of earnings at present rates and its recommended rate of return of 10.5%. The adopted summary of earnings and rate base for test year 1989 are in Appendix A.

TABLE 1

Summary of Earnings Test Year 1989

<u>Item</u>	<u>Present Rates</u>	<u>Recommended and Adopted Rates</u>
Operating Revenues	\$ 57,501	\$ 72,390
Operating Expenses	43,365	43,365
Depreciation Expense	6,244	6,244
Taxes Other than Income	3,650	3,650
Income Taxes	1,146	4,382
Net Revenue	3,096	14,749
Rate Base	140,385	140,385
Rate of Return	2.20%	10.51%

Table 2 sets forth a summary of the operating expenses which expenses remain constant under both present rates and the staff recommendations as can be seen from Table 1.

TABLE 2

Adopted Operating Expenses
Test Year 1988

<u>Item</u>	<u>Present Rates</u>	<u>Recommended and Adopted Rates</u>
Purchased Power	\$ 7,905	\$ 7,905
Materials Expenses	1,834	1,834
Contract Work	350	850
Employee Labor	6,520	6,520
Other Maintenance	2,162	2,162
Office Salaries	6,530	6,530
Management Salaries	6,530	6,530
Insurance	2,310	2,310
Professional Expenses	3,795	3,795
General Expenses	420	420
Office Supplies	1,139	1,139
Vehicle Expense	850	850
Office Rental	2,520	2,520
*Subtotal (Excl. Power)	<u>35,460</u>	<u>35,460</u>
Total Expenses	43,365	43,365

* Fixed Expenses

The operating revenues set forth in Table 1 are based upon 257 metered customers with an average monthly consumption of 12.1 Ccf each and an annual consumption of 4,974 Ccf by The Kern Counties Parks and Recreation account. It can readily be seen from Table 1 that Country Lane's additional revenue requirement based upon Branch's recommendation is \$14,889 (\$72,390-\$57,501), or 25.9%.

Country Lane's current rates and Branch's recommended rates are as follows:

	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
Service Charges:		
5/8 x 3/4-inch meter	\$ 6.00	\$ 8.76
3/4-inch meter	6.60	*
1-inch meter	9.00	*
1-1/2-inch meter	12.00	*
2-inch meter	16.00	*
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.	\$ 0.59	-
Next 2,700 cu.ft., per 100 cu.ft.	0.88	-
Over 3,000 cu.ft., per 100 cu.ft.	1.02	-
All usage per 100 cu.ft.		\$ 1.06

* No Recommendation

Country Lane presently has flat rate service rates set forth in its tariff. Recently, it has installed meters for all service and there no longer is any flat rate service. In this application as stated in the introduction, it seeks authority to discontinue all flat rate service. It is, therefore, not necessary to show the present flat rate service rate schedule.

It can be seen from the above table that the Water Branch staff has not made a recommendation with respect to increased service charges for meters larger than 5/8 x 3/4-inch. The evidence discloses that Country Lane has only one customer, namely the Kern County Parks and Recreation Department, which is served by a meter larger than the 5/8 x 3/4-inch size. Its meter is a 1-1/2

inch size. In the absence of a recommendation by Branch, we will increase those rates by the same percentage as the percentage increase to the 5/8 x 3/4-inch meter customers.

The Branch report and Exhibit A attached to the application disclose that in 1986 Mr. Witt incorporated Country Lane. No application was filed with the Commission requesting approval of the incorporation. Section 854 of the PU Code provides that:

"854. No person or corporation, whether or not organized under the laws of this state, shall, after the effective date of this section, acquire or control either directly or indirectly any public utility organized and doing business in this state without first securing authorization to do so from the commission. Any such acquisition or control without such prior authorization shall be void and of no effect. No public utility organized and doing business under the laws of this state shall aid or abet any violation of this section."

The Branch report makes the following recommendations respecting the disposition of the application:

1. If possible, the utility's 1986 incorporation could be authorized by the Commission subject to the payment of fees and issuance of a Commission certificate on common stock as specified under PU Code §§ 1904(b) and 1904.1. If it is not possible, Country Lane should be ordered to file a separate application to seek authorization of its prior incorporation.
2. The utility should be ordered to adopt the Commission's Uniform System of Accounts for small Class D water utilities. All public utility expenses should be posted directly as incurred to applicable PUC accounts in its accounting ledgers, not to secondary accounts and later reposting to PUC accounts by its accountants.

3. The Branch engineer's review of utility's water supplies indicates that Country Lane has adequate water production in its system, is not facing any imminent water supply shortages, and has practically no growth within its service area. Therefore, the Branch engineer recommends that utility be allowed to defer submission of its water management and conservation plan until its water supplies in the system fail to meet the standards of the Commission's GO 103.
4. Utility should be authorized to discontinue its Schedule No. 2, "Flat Rate Service" because there are no remaining flat rate customers.
5. No action be taken on utility's requested fire hydrant charges until it files the required fire protection service agreements to support billing under proposed Schedule No. 3, "Surplus Water Hauling Rate", following the Commission's advice letter procedure.
6. The Branch engineer recommends that Country Lane's reconnection charges after discontinuance of service be modified from the authorized rates of \$10/\$15 specified in is Rule No. 11 to a uniform charge of \$25 for weekday and weekend reconnections.
7. A rate of return of 10.5% on a test year 1989 rate base of \$140,385.

Since the incorporation has not been approved by the Commission, it is void and of no effect. We will act on this application as though it was filed by Mr. Witt as an individual doing Business as Country Lane. Country Lane will continue as a proprietorship until Mr. Witt has filed an application for approval of incorporation and received permission from this Commission in accordance with the provisions of the PU Code.

Branch's recommendation with respect to reconnection charges is in conflict with GO 103, Paragraph I.6.f. If Branch wishes to allow such increases in the future, it should ask the Commission to open an OIR to change GO 103.

Adopted Rate Design

On May 28, 1986, we issued D.86-05-064 in I.84-11-041 wherein we set forth our policy with respect to rate design. In Ordering Paragraph 2 of that decision, we set the following guidelines:

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

Ordering Paragraphs 3 and 4 of that decision set forth the following:

- "3. The new policy shall be implemented in future general rate proceedings.
- "4. Fixed cost as it relates to service charge shall be defined as those direct costs that are necessary to provide customers access to water, including:
 - "a. Maintenance expense
 - "b. Transmission and distribution expense
 - "c. Customer account expense, excluding incollectibles
 - "d. Administrative and general expense
 - "e. Rent expense
 - "f. Depreciation expense

"g. Property tax expense

"h. Gross return on investment (rate base)"

Based on the above definition of fixed cost review of our adopted expense figures, Tables 1 and 2, \$60,103 are fixed expenses of which up to 50% should be recovered by service charges. Under present rates Country Lane's revenue from service charges for test year 1988 would aggregate \$18,576. This is based on 256 residential customers with 5/8 x 3/4-inch meters paying a service charge of \$6.00 per month, and one customer with 1.5 inch meter paying \$12.00 per month.

D.86-05-064 also observed that in applying these guidelines, we do not expect a customer's total water bill to be increased substantially more than the total system increase. In this case, raising the service charge to recover as much as 50% of Country Lane's fixed costs would result in increasing some customers' bills more than twice the total system increase, so we will not do so.

In accordance with Ordering Paragraph 2(b) of D.86-05-064 we will eliminate the 300 cubic feet quantity rates. We will also eliminate the next 2,700 cubic feet quantity rates since Country Lane has a sufficient supply of water and does not foresee shortages because of drought or other reasons.

Our adopted rate design is set forth in Appendix B. Based on staff's projections for 1988 of 256 customers with 5/8 x 3/4-inch meters, with consumption of 1,210 cubic feet per month and one customer with 1.5 inch meter with consumption of 41,450 cubic feet per month, our adopted rate design provides for recovery of \$27,245 thru service charges and the remainder of the revenue requirement thru the usage charge.

A comparison of monthly bills adopted for a 5/8 x 3/4-inch meter (residential customer) with consumption of 1,210 cubic feet per month is as follows:

<u>Charge Under Present Rates</u>	<u>Charge Under Adopted Rates</u>	<u>Increase</u>	
		<u>Amount</u>	<u>Percent</u>
\$15.77	\$21.75	\$5.98	37.9%

Findings of Fact

1. Branch's estimates as to expenses and revenues set forth in Tables 1 and 2, are reasonable.
2. Branch's computation of rate base at \$154,220 is reasonable.
3. A rate of return of 10.5% is reasonable.
4. The increases authorized in Appendix B are just and reasonable.
5. The adopted quantities in Appendix D shall be the basis for any offset rate increase filed by the utility under the Commission's advice letter procedures.

Conclusions of Law

1. The application should be granted to the extent set forth in the following order.
2. The incorporation of Country Lane Water Company, Inc. is void.

ORDER

IT IS ORDERED that:

1. After the Commission acts on the application required in Ordering Paragraph 2, Country Lane Water Company, Inc. is authorized to file the revised rate schedules attached to this order as Appendix A and to concurrently withdraw and cancel its present schedules for such service. Such filing shall comply with GO Series 96.

2. Timothy Witt shall file an application in accordance with the Public Utilities Code requesting approval of the transfer of ownership to the corporation Country Lane Water Company, Inc.

3. The effective date of the revised schedules authorized by Ordering Paragraph 1 shall be no earlier than 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.


This order is effective today.

Dated AUG 3 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

Commissioner Stanley W. Hulett,
being necessarily absent, did not
participate.

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


Victor Weisser, Executive Director

JB

APPENDIX A

COUNTRY LANE WATER COMPANY
SUMMARY OF EARNINGS

Test Year 1989

Item	Utility and Staff Present Rates:	Recommended and Adopted Rates:
OPERATING REVENUES	57501	72390
OPERATING EXPENSES:		
Purchased Power	7905	7905
Materials Expenses	1834	1834
Contract Work	850	850
Employee Labor	6520	6520
Other Maintenance	2162	2162
Office Salaries	6530	6530
Management Salaries	6530	6530
Insurance	2310	2310
Professional Expenses	3795	3795
General Expenses	420	420
Office Supplies	1139	1139
Vehicle Expenses	850	850
Office Rental	2520	2520
Total Expenses	43365	43365
Depreciation	6244	6244
Property Taxes	1595	1595
Other Taxes	2055	2055
Income Taxes	1146	4382
Total Deductions	54405	57641
Net Revenue	3096	14749
AVER. RATE BASE:		
Average Plant	207923	207923
Depr. Reserve	76607	76607
Net Plant	131316	131316
Advances	0	0
Contributions	0	0
Working Cash	6569	6569
Mat'ls & Supps.	2500	2500
RATE BASE	140385	140385
RATE OF RETURN, %	2.20%	10.51%

(END OF APPENDIX A)

APPENDIX B

Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Onxy and vicinity, located approximately five miles northeast of Weldon, Kern County.

RATES

	<u>Per Meter Per Month</u>		
Effective Date.....	<u>Regular Charge:</u>		<u>Surcharge:</u>
			9/1/85
<u>Service Charge:</u>			
5/8 X 3/4-inch meter.....	\$8.80	(I)	\$3.70
3/4-inch meter.....	9.68	(I)	5.55
1-inch meter.....	13.20	(I)	9.25
1- 1/2-inch meter.....	17.60	(I)	18.50
2-inch meter.....	23.50	(I)	29.60

Quantity Rates:

For all water delivered		
Per 100 cubic feet.....	\$1.07	(I)

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.

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly (T) charges for metered water service. The monthly surcharge must be separately identified on each bill. This surcharge is specifically for the repayment of the United States Small Business Administration loan authorized by Decision No. 85-07-027.

APPENDIX B

Page 2

Schedule No. 2

FLAT RATE SERVICE

This schedule shall be cancelled and withdrawn.

(END OF APPENDIX B)

APPENDIX C

COUNTRY LANE WATER CO.

COMPARISON OF RATES

A comparison of present and adopted rates for metered service is shown below:

METERED SERVICE

Quantity Rates:

	<u>Per Meter Per Month</u>	
	<u>Present</u> <u>Rates</u>	<u>Adopted</u> <u>Rates</u>
First 300 cu. ft., per 100 cu. ft.....	\$0.59	
Next 2700 cu. ft., per 100 cu. ft.....	0.88	
Over 3000 cu. ft., per 100 cu. ft.....	1.02	
For all water delivered, Per 100 cu. ft.....		\$1.07

Monthly Service Charge:

For 5/8 x 3/4-inch meter.....	\$6.00	\$8.80
For 3/4-inch meter.....	6.60	9.68
For 1-inch meter.....	9.00	13.20
For 1- 1/2-inch meter.....	12.00	17.60
For 2-inch meter.....	16.00	23.50

BILL COMPARISONS

A comparison of monthly bills at present and adopted rates for customers with 5/8 X 3/4-inch meters is given in the table following:

<u>Water Use</u> <u>in 100 c.f.</u>	<u>Present</u> <u>Rates:</u>	<u>Adopted</u> <u>Rates:</u>	<u>Increase,</u> <u>Percent:</u>
0	\$6.00	\$8.80	46.7
5	9.53	14.15	48.5
12 (sys. avg)	15.69	21.64	37.9
20	22.73	30.20	32.9
30	31.53	40.90	29.7
50	51.93	62.30	20.0
100	102.93	115.80	12.5

(END OF APPENDIX C)

APPENDIX D

Page 1

COUNTRY LANE WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989

Net to Gross Multiplier:	1.297
Federal Tax Rate:	15%
State Tax Rate:	9.3%
Local Franchise Tax Rate:	0.0
Bus. License (Kern Co.):	\$25
Uncollectible Rates:	0.0

Offset Items:

	<u>1989 Amount</u>
1. <u>Purchased Power (Electric)</u>	
Total Production -Ccf	46,828
kWh/Ccf	1,754
kWh	82,113
<u>Southern California Edison Co.</u>	
Schedule PA-1	PA-1
Eff. Sched. date	Oct. 1, 1988
\$/kWh Used:	\$0.08687
Commodity Cost/ PA-1	\$7,133
Service & Cust. chgs.	\$354
GS-1 energy	\$402
<u>Energy Comm. Surcharge:</u>	
82,113 X \$0.00020=	\$16.42
Total Power Costs:	\$7905
2. Purchased Water	None
3. <u>Other Adopted Expenses:</u>	
Employee Labor	\$6,520
Office Salaries	\$6,530
Management Salaries	\$6,530
Insurance Expense	\$2,310
<u>Water Quality Testing:</u>	
(Of profess. expenses)	\$889
Materials Expenses	\$1834
Contract Work	\$850
<u>Ad Valorem Taxes:</u>	
\$159,500 ass. val. @ 1%:	\$1,595

APPENDIX D

PAGE 2

COUNTRY LANE WATER CO.

ADOPTED SERVICES BY METER SERVICE
(All Classes)

Test Year 1989

<u>Meter Size</u>	<u>Number</u>
5/8 x 3/4-inch	256
3/4-inch	0
1-inch	0
1- 1/2-inch	1
2-inch	0

Total Number	257

Metered Sales Used To Design Rates:

<u>Item:</u>	<u>1989 Usage,</u> <u>Ccf:</u>
Domestic 5/8 x 3/4-inch meters:	37,171
Kern Co. Park (1-1/2-inch meter)	4,974
Total Sales:	42,145

Adopted Water Loss Factor for Water Production is 10%.

APPENDIX D

Page 3

COUNTRY LANE WATER COMPANY

ADOPTED INCOME TAXES

Test Year 1989

Item:	Present Rates:	Adopted Rates:
Operating Revenue:	57501	72390
Oper. Rev. Deductions:		
Tot. Rev. Deducts.	47015	47015
Interest	0	0
Total Deduction:	47015	47015
State Tax Depreciation	6244	6244
Net Taxable Income	4242	19131
State Corp. Tax @ 9.3%	600 (min)	1779
Fed'l Tax Depreciation	6244	6244
Fed'l Taxable Income	3642	17352
Fed'l Income Tax @ 15%	546	2603
Total Income Taxes:	1146	4382

(END OF APPENDIX D)