

Decision 90 07 035 JUL 18 1990

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Bidwell Water Company, )  
Inc. for authority to increase rates )  
for water service, and to initiate a )  
set of rates to establish a construc- )  
tion reserve fund to rehabilitate )  
facilities to meet today's standards )  
for water service - U52W. )

Application 89-04-045  
(Filed April 19, 1989)

Thomas J. Jernigan and Alexander Chocas,  
for Bidwell Water Company, Inc.,  
applicant.

Eugene C. Bonnstetter, Attorney at Law, for  
Caltrans, and Gunther L. Sturm, for  
himself; interested parties.

Sazedur Rahman, for the Commission Advisory  
and Compliance Division, Water Utilities  
Branch.

O P I N I O N

Bidwell Water Company, Inc., a California corporation,  
providing water service to approximately 530 customers in  
Greenville, Plumas County, requests a general rate increase for the  
years 1990 through 1992.

Duly noticed public hearings were held before  
Administrative Law Judge Orville I. Wright in Greenville on  
January 16, 1990, and in San Francisco on March 14 and 15, 1990.  
The matter was submitted for decision on March 30, 1990.

Decision Summary

Bidwell Water Company, Inc. (Bidwell) is allowed a  
general rate increase of \$20,612 or 30.06% for 1990, and a  
reduction of \$917 or 1.03% for 1991.

Applicant had requested an increase of \$36,771 or 53.62%  
for 1990, and \$7,453 or 7.07% for 1991.

Step rates will be set for 1992 based upon operational attrition--the amount of decline of rate of return from test year 1990 to test year 1991 of the adopted summary of earnings at present tariff rates.

Applicant's request to borrow \$20,353 annually from its customers by increases in water rates is denied.

Service Area

Bidwell serves the unincorporated community of Greenville located between Lake Almanor and Quincy, Plumas County, at an elevation of 3,580 feet. Bidwell derives its water supply from Round Valley Reservoir situated about 2 miles south of Greenville at an elevation of 4,480 feet with a storage capacity of 5,000 acre-feet. Water is conveyed from the reservoir to a 700,000-gallon steel storage tank. Before entering the distribution tank the water is chlorinated, filtered, and treated. From storage, a pipeline transmits water 2,000 feet to the town's distribution system where there are 36 fire hydrants and some 530 active service connections.

✓  
✓  
✓

Table 1

**SUMMARY OF EARNINGS**  
**Test Year 1990**

Present Rates Estimates

<u>Item</u>	<u>Applicant</u>	<u>Branch</u>	<u>Adopted</u>
Operating Revenues	\$68,578	\$68,578	\$89,190
<u>Operating Expenses</u>			
Purchased Power	1,800	1,602	1,602
Other Volume Expenses	1,745	1,818	1,818
Employee Labor	6,975	7,549	7,549
Materials	4,900	2,423	2,423
Contract Work	1,290	2,515	2,515
Transportation	2,330	2,044	2,044
Office Salaries	8,610	5,913	5,913
Management Salaries	16,500	16,396	16,396
Employee Benefits	7,470	1,997	1,997
Office Supplies	6,295	4,604	4,604
Professional Services	3,610	3,600	3,600
Insurance	3,965	3,561	3,561
Regulatory Expense	2,060	1,067	1,067
General Expense	5,090	8,954	8,954
Subtotal	72,640	64,043	64,043
Depreciation Expense	4,740	7,231	7,231
Federal Income Tax	2,330	0	1,902
Cal. Franchise Tax	1,593	800	1,301
Other Taxes	4,875	3,931	3,931
Total Expenses	86,178	76,005	78,408
Net Revenue	(17,600)	( 7,427)	10,782
Rate Base	167,034	98,015	98,015
Return on Rate Base	(10.54%)	( 7.58%)	11%

(Red Figure)

Table 2

**SUMMARY OF EARNINGS**  
**Test Year 1991**

**Present Rates Estimates**

<u>Item</u>	<u>Applicant</u>	<u>Branch</u>	<u>Adopted</u>
Operating Revenues	\$68,578	\$68,578	\$88,273
<u>Operating Expenses</u>			
Purchased Power	1,880	1,602	1,602
Other Volume Expenses	1,825	1,912	1,912
Employee Labor	7,300	7,911	7,911
Materials	5,130	2,549	2,549
Contract Work	1,355	2,636	2,636
Transportation	2,450	2,150	2,150
Office Salaries	9,025	6,197	6,197
Management Salaries	17,300	17,183	17,183
Employee Benefits	7,960	2,093	2,093
Office Supplies	6,900	4,843	4,843
Professional Services	3,610	3,600	3,600
Insurance	2,500	3,732	3,732
Regulatory Expense	2,200	1,067	1,067
General Expense	5,265	6,243	6,243
Subtotal	74,700	63,718	63,718
Depreciation Expense	5,440	7,288	7,288
Federal Income Tax	2,981	0	1,795
Cal. Franchise Tax	2,038	800	1,228
Other Taxes	5,045	4,068	4,068
Total Expenses	90,204	75,874	78,097
Net Revenue	(21,626)	( 7,296)	10,176
Rate Base	196,884	92,506	92,506
Return on Rate Base	(10.98%)	( 7.89%)	11%

(Red Figure)

Summary of Earnings

Tables 1 and 2 show test year 1990 and 1991 estimates by applicant and by Water Utilities Branch (Branch), and adopted revenues, expenses, and rate base utilizing an 11% rate of return.

Applicant and Branch are in agreement with respect to number of customers and water consumption for the test years.

Significant differences between Bidwell and Branch as to expense items and rate base are discussed below.

Purchased Power

Applicant's estimate exceeds that of Branch by reason of Bidwell's (1) including the cost of operating a proposed electric pump at Buckeye Springs, a natural spring, as a source of additional water; and (2) increasing electric power service charges by an escalation factor of 1.045.

Branch recommends disallowance of the Buckeye Springs improvement as purchase and installation of the new pump is dependent upon Commission approval of a construction reserve fund which Branch opposes and which we deny, as discussed below.

Branch averaged kilowatt hour usage for three years and applied current PG&E rates stating that escalation of power costs is unnecessary as this category of expense is subject to recovery through an offset procedure.

We adopt the Branch recommendations.

Materials

Branch's estimate for materials is lower than Bidwell's estimate because Branch removed recorded chemical expenses from the materials account and placed them in Other Volume Related Expenses in accordance with proper accounting principles. Branch also excluded years showing wide variations in computing its average cost for purposes of escalation.

We find the Branch estimate to be the more reasonable.

Transportation

In 1988, applicant sold its truck and has been using the owner's truck or an employee's truck for business purposes. Bidwell excluded 1988 in determining average transportation cost on the assumption that a new truck would be purchased.

As it remains unclear whether Bidwell will purchase a new truck in the face of our denial of applicant's proposed construction reserve fund discussed below, we will adopt Branch's estimate and allow for offset treatment of truck expense in the event Bidwell elects to buy new equipment.

Office Salaries

The wife of applicant's owner acts as receptionist at the family home and applicant proposes to include four hours per day, five days per week, for her services as office expense.

Branch suggests that two hours per day would be a reasonable allowance because applicant's bookkeeper maintains complaint and billing records in her office, and the receptionist's telephone answering recording directs all related inquiries to the bookkeeper.

In the absence of any record of actual duties performed and actual time spent on company business, we will adopt the Branch estimate as more reasonable.

Employee Benefits

Applicant's inclusion of 100% of its owner's medical insurance in utility costs while only 50% of his time is devoted to the water business resulted in Branch reducing this cost by half. The owner also operates a backhoe business.

Further, Branch recommends disallowance of the 10% of salaries which Bidwell proposes for a 401 K pension plan as no such plan exists.

We concur with Branch recommendations.

Office Supplies

Applicant's assumption of a growth rate of 9.6% per year for this category of expense was thought unreasonable by Branch as no customer growth is projected for this utility.

We adopt the Branch average cost based on recorded expenses for 1984 to 1989 escalated for 1990 and 1991 using non-labor factors.

Regulatory Expense

Applicant's consultant estimated his fee for this proceeding at \$3,200, which Branch accepts and amortizes over a three-year period. However, the consultant used 1.95% of annual revenue, rather than his fee, in making his estimate of regulatory expense.

We find the Branch estimate more reasonable than applicant's method of using 1.95% of annual revenue.

General Expense

On October 12, 1989, after its application was filed, Bidwell notified Branch that it was cited by the Department of Health Services (DHS) and required \$7,700 to meet the terms of DHS requirements.

As applicant's figure of \$7,700 was unsupported by a cost analysis, Branch categorized the work to be performed, estimated training and labor costs, and arrived at the sum of \$3,400 for 1990, and \$400 for 1991.

We will accept the Branch recommendations that its estimates be included in General Expense for the test years and that applicant be authorized to apply for offset treatment of any additional costs actually incurred to meet DHS requirements.

Rate Base

While applicant proposed new plant additions of \$42,900 consisting of a new utility truck, jackhammer, and pump equipment to develop an additional source of water at Buckeye Springs, Branch included only \$3,500 for the jackhammer in 1990 rate base.

Branch's action is predicated upon applicant's assertions that the proposed plant additions are dependent upon its receiving increased revenues equal to the amount of the respective year's plant additions--Bidwell's so-called construction reserve fund.

Branch believes that the truck and pump are needed and reasonable. It also believes that projects such as pipe replacements on East Main Street in Greenville and in the Kinder Flats area, as suggested by Bidwell, are needed and reasonable. It accordingly recommends that applicant be authorized to file an advice letter to reflect these additions to rate base and rates for service after the improvements become operational.

We adopt the Branch recommendations with respect to the needed plant replacements.

Caltrans Agreement

Applicant agrees to Branch's including in rate base \$19,685.24 for replacement by California Department of Transportation (Caltrans) of a Bidwell water pipe in 1988. Bidwell and Caltrans agreed that applicant would reimburse Caltrans at \$2,978.83 each year for ten years. Interest is at 8.34 percent.

Rate of Return

Applicant requests an 11.48% rate of return on rate base for test years 1990 and 1991, but provides no evidentiary support for that rate.

The Accounting and Finance Branch of the Commission Advisory and Compliance Division recommends a range of rate of return from 10.50% to 11.00% for small, equity financed, water utilities. Branch suggests 11.00% as appropriate in this case, and we concur.

Construction Reserve Fund

Applicant requests authority to increase water rates by \$20,353 annually, over and above the rate increases justified by its costs of service, to fund replacements and improvements needed to bring the water system up to today's standards. There are 13



improvement projects recommended by the engineering firm of Rolls, Anderson & Rolls of Chico, estimated to cost \$697,300, that applicant and Branch agree would reasonably improve existing plant.

Applicant laments that the \$10,782 the Commission is here authorizing as net revenue will barely cover the annual interest and principal due on the debt it incurred to purchase the utility, let alone provide the positive cash flow necessary to persuade banks to loan additional sums for system improvements. Bidwell urges the Commission to permit it to borrow from its ratepayers by increasing the rate of return or by adding a surcharge to the tariff schedules.

It is, of course, not the province of the Commission to provide funding to private utilities through enforced contributions or loans from ratepayers. Here we authorize increased rates because the evidence shows that increased costs to serve plus a reasonable return on equity dictate the imposition of increased rates on Bidwell's customers. Funds beyond those provided by its tariffs must be obtained by Bidwell through its own resources.

#### Rate Design

Decision 86-05-064, effective May 28, 1986, established current rate design policy for water companies. This decision calls for the phasing out of lifeline rates, allows for reduction of multiple consumption blocks to a single block, and calls for the recovery of up to 50% of fixed expenses through service charges.

Present metered rate service charges recover about 39% of the fixed costs. Applicant's proposed metered rate service charges for 1990 and 1991 also recover approximately 39% of the fixed costs. Commission policy requires service charges to be not more than 50% of the fixed costs, but considers 50% to be an equitable sharing of operational risk. In conformance with this policy, Branch recommends that the metered rate service charges be designed to recover up to 50% of applicant's fixed costs in the service

charge and at the same time ensure that no customer's total water bill be increased substantially more than the total system increase.

Applicant's General Metered Service Rate Schedule consists of a monthly service charge, a 300 cubic feet block, and a second block for consumption over 300 cubic feet. Branch recommends a single block structure in accordance with Commission guidelines.

Since applicant has no customers served under Schedule 2L, Limited Flat Rate Service, and the schedule prohibits inclusion of additional customers, Branch recommends that the schedule be cancelled.

We will adopt the Branch recommendations.

Comments

Pursuant to the Commission's Rules of Practice and Procedure, the proposed decision of the assigned administrative law judge for this proceeding was filed with the Commission and distributed to the parties on June 11, 1990.

Caltrans filed comments on June 22, 1990, requesting that the following statement be included as an ordering paragraph in the decision:

"Bidwell is authorized to assume its legal debt to Caltrans pursuant to Public Utilities (PU) Code § 818, in that said debt of \$19,685.24 owed to Caltrans by Bidwell has been included as part of the company rate base used by the Commission in determining the appropriate general rate increase."

As the decision notes, Caltrans and Bidwell have agreed to an extension of time for applicant to pay its debt to Caltrans. However, such an extension agreement does not constitute the issuance of an evidence of indebtedness requiring prior approval of the Commission pursuant to PU Code § 818.

Findings of Fact

1. Bidwell, a California corporation, provides water service to approximately 530 customers in Greenville, Plumas County.

2. Applicant requests authority to adjust rates for water service to increase revenues for 1990 by \$36,771 or 53.62%, and for 1991 by \$7,453 or 7.07%.

3. The increase in rates authorized by this decision is expected to provide increased revenue for 1990 of \$20,612 or 30.06%, a decrease in 1991 of \$917 or 1.03%, and an increase of \$372 or 0.42% in attrition year 1992.

4. Applicant's request for a further rate increase of \$20,353 annually to finance system improvements is denied.

5. The Adopted Summary of Earnings for 1990 and 1991 sets forth reasonable estimates of the levels of revenues and expenses likely to occur in those years.

6. A rate of return of 11% on applicant's rate base is reasonable.

7. The rate design recommended by Branch is reasonable.

8. Applicant's service and water quality are adequate.

9. Applicant may require offset rate treatment of costs of a new truck, Buckeye Springs pump installation, pipe replacement, and DHS requirements.

10. Because of applicant's immediate need for rate relief, this order should be effective today.

Conclusions of Law

1. A.89-04-045 should be granted to the extent provided by the following order, the adopted rates being just, reasonable, and nondiscriminatory.

2. Applicant should be authorized to file for offset rate increase to reflect costs of a new truck, Buckeye Springs pump installation, pipe replacement, and DHS requirements.

3. As the expected rate adjustment for 1991 and 1992 is less than \$1,000 each year, the filing of new rate schedules for those years should not be required.

O R D E R

IT IS ORDERED that:

1. Bidwell Water Company, Inc., (Bidwell) is authorized to file revised tariff schedules attached to this decision as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) 96-A. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. Bidwell is authorized to file for offset rate increases to reflect costs of a new truck, Buckeye Springs pump installation, pipe replacement, or DHS requirements in the event a new truck is acquired, the improvements become operational, or the cost of meeting DHS requirements exceeds the allowance made in this decision.

3. The application is granted as set forth above.

This order is effective today.

Dated JUL 18 1990, at San Francisco, California.

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

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

APPENDIX A  
Page 1

Schedule No. 1

Bidwell Water Company

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Greenville and vicinity, Plumas County.

RATES

Service Charge:	<u>Per Meter Per Month</u>		<u>Surcharge Per Month</u>
For 5/8 x 3/4-inch meter.....	\$ 5.40	(I)	\$ 6.05
For 3/4-inch meter.....	5.90		6.05
For 1-inch meter.....	8.00		10.30
For 1 1/2-inch meter.....	10.80		19.95
For 2-inch meter.....	13.85		32.05
For 3-inch meter.....	26.30	(I)	60.00

Quantity Rates:

All water, per 100 cu. ft..... \$ 0.52 (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. All rates are subject to the reimbursement fee set forth on Schedule No. UF.

The Surcharge is in addition to the regular metered water bill. The monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act (SDWBA) loan authorized by Decision 90885. (T)

All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)

APPENDIX A

Page 2

Schedule No. 2R

Bidwell Water Company

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential service.

TERRITORY

Greenville and vicinity, Plumas County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single-family residential unit, including premises not exceeding 500 sq. ft. in irrigated area (lawn and garden).....	\$ 10.80	(I)
For each additional single-family residential unit on the same premises and served from the same service connection.....	9.95	
For each 100 sq. ft. or irrigate area in excess of 500 sq. ft.....	.27	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.

(continued)

APPENDIX A

Page 3

Schedule No. 2R

Bidwell Water Company

RESIDENTIAL FLAT RATE SERVICE

3. The surcharge shown in the table below shall be applied to each size service line (may be more than one) which provides flat rate water service to a premise under this schedule.

Flat Rate Surcharge - Schedule No. 2R

<u>Size of Service</u>	<u>Monthly Surcharge</u>
Residential - less than 1-inch	\$ 6.05
1-inch	10.30
1 1/2-inch	19.95
2-inch	32.05
3-inch	60.00

The Surcharge is in addition to the regular flat rate water bill. The monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act (SDWBA) loan authorized by Decision 90885.

4. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)  
(L)

APPENDIX A

Page 4

Schedule No. F-1

Bidwell Water Company

FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service for private or public agencies.

TERRITORY

The entire territory served from the company's piped distribution system.

RATES

	<u>Per Month</u>
Per hydrant.....	\$2.00

SPECIAL CONDITIONS

1. The company 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.
2. The customer shall indemnify the company and save it harmless against any and all claims arising out of service under this schedule and shall further agree to make no claim against the company for any loss or damage resulting from service hereunder.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)  
(L)

(End of Appendix A)



APPENDIX B

Bidwell Water Company

(Intentionally left blank since this Decision does not require filing  
of different rates for 1991 and 1992)

(End of Appendix B)

APPENDIX C

Page 1

## Bidwell Water Company

ADOPTED QUANTITIES

Name of Company: Bidwell Water Company

1. Net-to-Gross Multiplier: 1.2971
2. Federal Tax Rate: 15%
3. State Tax Rate: 9.3%
4. Purchased Power:

	<u>Test Years</u>	
	<u>1990</u>	<u>1991</u>
Pacific Gas and Electric Company Rate Schedule	A-1	A-1
Effective Date of Schedule:	3/22/89	3/22/89
Quantity Charge:		
Kwh Used Total	14,738	14,738
Kwh Used-Summer	4,143	4,143
Kwh Used-Winter	10,595	10,595
\$/Kwh - Summer	.10956	.10956
\$/Kwh - Winter	.09004	.09004
Service Charge:		
\$/Pump/Month - Single Phase	5.00	5.00
\$/Pump/Month - Polyphase	6.25	6.25
No. of Pumps - Single Phase	1	1
No. of Pumps - Polyphase	1	1
Energy Commission Tax (\$/year)	59	59
Total Purchased Power	\$1,602	\$1,602

## 5. Payroll:

Employee Labor	7,549	7,911
Office Salaries	5,913	6,197
Management Salaries	<u>16,396</u>	<u>17,183</u>
Total Payroll	\$29,858	\$31,291
Payroll Taxes	\$ 2,720	\$ 2,835

(Continued)

APPENDIX C

Page 2

## Bidwell Water Company

	<u>1990</u>	<u>1991</u>
6. Ad Valorem Taxes:	\$ 1,061	\$ 1,083
Effective Tax Rates	1.00%	1.00%
7. Water Testing:	\$ 2,515	\$ 2,636
8. Insurance:		
Liability	3,140	3,291
Workman's Comp.	<u>421</u>	<u>441</u>
Total	\$ 3,561	\$ 3,732
9. Adopted Number of Flat Rate Services:		
Residential (Within 500 sq. ft. in irrigated area)	36	36
Irrigation (Lot size: 35,300 sq. ft.)	1	1
10. Adopted Services by Meter Size:		
Meter Size (inches)		
5/8 x 3/4	448	448
3/4	12	12
1	14	14
1 1/2	4	4
2	6	6
3	<u>0</u>	<u>0</u>
Total	484	484
11. Annual Metered Water Usage to Design Rates (ccf)	96,218	96,218
12. Adopted Fire Hydrant Services	36	36

(End of Appendix C)

## APPENDIX D

## Bidwell Water Company

Comparisons of typical bills (excluding the SDWA loan surcharge) for residential metered customers at various usage levels and average level at present and authorized rates for the year 1990.

GENERAL METERED SERVICE  
(5/8 x 3/4-inch meters)

## Schedule No. 1

Monthly Usage CCF (100 Cubic Feet)	Present Rates	1990	Percent Increase
		Authorized Rates	
0	\$ 3.90	\$ 5.40	38.5%
10	7.93	10.60	33.7
16.6 (avg)	10.77	14.03	30.2
20	12.23	15.80	29.2
50	25.13	31.40	25.0
100	46.63	57.40	23.1

(End of Appendix D)