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Decision 91-07-043 July 24, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
GIBBS RANCH SEWER CO., a California)
corporation for authority to)
increase rates.)

Application 90-09-032)
(Filed September 13, 1990;)
amended December 17, 1990)

ORIGINAL

John D. Reader, for Gibbs Ranch Sewer Co.,
applicant.

Arthur B. Jarrett and Rahmon Momoh, for the
Commission Advisory and Compliance
Division.

OPINION

Gibbs Ranch Sewer Co. (Gibbs Ranch), a California corporation, provides sewer collection service to about 462 customers in an area northwest of the City of Sonora, Tuolumne County.

Applicant requested a general rate increase of \$20,680 or 24.9% over present rates for test year 1991.

This decision grants applicant a general rate increase of \$11,770 or 14.14% for test year 1991. It also approves an increase in applicant's connection charges for new customers from the present \$90 to \$670 if the connection is off paved streets, and \$810 for connections in paved streets.

Duly noticed public hearings were held in Sonora on January 29, 1991, before Administrative Law Judge Orville I. Wright, and the matter was submitted for decision on February 21, 1991.

Description of Applicant

Gibbs Ranch is located in an area northwest of the City of Sonora, Tuolumne County and now serves about 462 customers with 4-inch, 6-inch, and 8-inch asbestos cement pipelines. The sewage is delivered to the Tuolumne Regional Water District (TRWD)

sewer system which provides treatment and disposes of the water for a fee. The applicant's system also has two lift stations, one for the race track subdivision and the other for a 16-unit complex built in 1987.

Present rates have been in effect since February 6, 1985, pursuant to Commission Resolution W-3255, which authorized an offset rate increase. The last general rate increase for the applicant was authorized by Decision (D.) 82-12-073, dated December 15, 1982.

Adopted Summary of Earnings

Table 1 shows the adopted summary of earnings for applicant for test year 1991. Only four expense categories are disputed--management salary, professional services, insurance, and office services and rent. Each of the contested expenses is discussed, and Table 1 reflects the amounts adopted by this decision.

TABLE 1
Adopted Summary of Earnings
Test Year 1991

	1991
Operating Revenue	
Flat Rate	\$95,010
B/D Rate	
Total Revenue	95,010
Operating Expenses	
Power	410
Sewer Treatment	34,650
Employee Labor	13,000
Office Salaries	4,000
Management Salary	6,360
Contract Work	870
Regulatory Expenses	1,300
Professional Services	3,065
Office Supplies & Expenses	430
Materials	470
Insurance	1,055
Off. Services & Rent	4,740
Vehicle Expense	1,350

Misc. General Expenses	150
Subtotal	71,850
Depreciation Expense	6,442
Payroll Taxes	2,325
CCFT	1,339
FIT	1,958
Total Expenses	83,914
Net Revenue	11,096
Rate Base	
Average Plant	291,170
Average Depr. Reserve	124,380
Net Plant	166,790
Less: Advances	0
Contribution	63,970
Plus: Working cash	0
M&S	500
Rate Base	103,320

Rate of Return 10.74%

Management Salary

Applicant's estimate of management salary for test year 1991 is \$11,970 as compared to the Branch estimate of \$2,630, a difference of \$9,340.

Applicant's sole shareholder is both the corporation's controller and its manager of sewer operations. In D.90-05-082, Gibbs Ranch Water Company, issued on May 22, 1990, we found management salary for water operations to be reasonable at \$10,530 for 1991. Branch believes that the salary for sewer operations should be consistent with that allowed for applicant's water business and suggests a salary of \$2,630, based upon the manager's statement that perhaps he spends four times as many hours of work on water business as compared to sewer business.

We concur with Branch that the salary determination in this case should be consistent with that in D.90-05-082, but we note that the manager's recollection of the time devoted to his various enterprises varies, and a better measure is available on the record before us.

In the earlier water case, applicant wrote Branch that a salary of \$20,000 should pertain to the water business and a salary of \$12,000 should pertain to the sewer business. We found that a salary of \$10,530, or 53% of applicant's water estimate, was reasonable for water. It follows that a salary of \$6,360, or 53% of the applicant's sewer estimate of \$12,000, would be consistent with D.90-05-082. The salary, thus derived, is also consistent with the levels of gross revenues and of expenses of sewer operations as compared with water operations.

We adopt \$6,360 for management salary in test year 1991.

Professional Services

Applicant and Branch differ as to the inclusion of an expense of \$3,563 recorded in 1988 as an above-the-line cost subject to amortization in rates.

Branch views the subject expense as nonrecoverable litigation fees having to do with service area expansion.

At hearing, applicant was unclear as to exactly what was entailed in the disputed fees or costs, and we must decline to include the cost in allowable expenses based upon that insufficiency of evidence.

Insurance

Applicant's estimate of insurance expense for test year 1991 is \$2,100 as compared to the Branch estimate of \$1,055, a difference of \$1,045.

During its field investigation, Branch found that applicant's insurance policy named only Gibbs Ranch Water Co. as insured, omitting Gibbs Ranch Sewer Co. After this omission was

called to applicant's attention, a portfolio change endorsement was issued adding the sewer company as a named insured.

Branch's figure of \$1,055 was confirmed by applicant's insurance broker as being the correct premium for one year for sewer operations.

Office Services and Rent

A comparison of applicant's and Branch's estimates of office services and rent expense in test year 1991 is shown in the following table.

<u>Item</u>	<u>Applicant</u>	<u>Branch</u>
Answering Service	\$ 275	\$275
Office Rent	4,065	700
Computer Rent	400	400
Miscellaneous	120	0
	<u>\$4,860</u>	<u>\$1,375</u>

Applicant's estimate of office rent is 43% of total office rent of \$9,480 paid in 1990 by the water and sewer businesses combined. The methodology is consistent with that employed by applicant in the earlier water proceeding and was there accepted by Branch.

In further support of its estimate of office rent, applicant states that its owner is acquiring the building housing its offices at a cost in excess of \$114,000 which, at a rate of return of 10.75% would indicate a rental value of \$14,300 exclusive of real property taxes.

Branch, noting that there was no written rental agreement at the time of its study, conducted a telephone survey of real estate firms in the Sonora area which are reported to have informed Branch that rental space was available in the area at about \$.65 per square foot per month.

We think, as we did on the topic of management salary, that consistency of reason supports adoption of applicant's rent estimate. Further, applicant's analysis of the cost of acquisition

of the office property is a more reliable measure than Branch's general telephonic poll of realtors.

Branch opposes the inclusion of miscellaneous expense of \$120 in office services as \$150 has already been included elsewhere in its study. We will accept staff's exclusion of miscellaneous expense in office services.

Total allowance for office services and rent is \$4,740.

Rate of Return

The Accounting Financial Branch of the Commission Advisory and Compliance Division recommends a standard rate of return of 10.50% to 11% for 100% equity financed water utilities. Branch believes this recommendation to be also applicable to sewer utilities. As applicant is a 100% equity-financed utility, Branch believes that 10.74% rate of return, the approximate midpoint of the recommended range is fair and reasonable. Branch recommends that applicant's requested 10.74% rate of return be adopted.

We adopt 10.74% as rate of return in this proceeding.

Rate Design

Applicant requests that the following tariff schedules be changed to reflect the increase in revenue:

<u>Schedule No.</u>	<u>Service Provided</u>	<u>Effective Date</u>
1	Residential Service	June 21, 1985
4	Service Connection	May 23, 1986

Applicant's present residential service rates consist of a basic flat rate per resident (both single and multi-family) plus an additional charge for each bedroom on the same premises served by the same connection.

Present rates also include separate rates for multi-family residents with central laundry facilities and for each washing machine in the central laundry facilities. Applicant indicates that it has no need for these two separate rates.

Applicant requests that its proposed residential service rates consist of one flat rate per resident (both single and multi-family) plus an additional charge for each bedroom on the same premises served by the same connection. It also requests that the charges related to washing machines and laundry facilities be eliminated.

Branch believes that the fairest way to apply rates for sewage collection service provided by the applicant is to assess every resident the same rate irrespective of the number of bedrooms on the premises. Branch, therefore, recommends that the proposed rates for residential service consist of the same flat rate for each residence regardless of the number of bedrooms. Branch also recommends the elimination of charges related to washing machines and laundry facilities.

We adopt Branch's recommendations.

Service Connection Charges

Applicant requests an increase in connection charges to new residential customers in its tariff Schedule No. 4. The present and proposed rates are as follows:

	Present Rates	Requested Rates	
		On-paved Street	Off-paved Street
Connection Charge by Applicant	\$ 75	\$790	\$650
Inspection Charge by Applicant	15	20	20
TRWD Special Conn. Fee Assessed Appl.	385	1,195	1,195
Total	\$475	\$2,005	\$1,865

The cost of providing new connections was developed from recorded 1984 and 1985 plant additions and a detailed analysis of the 1990 cost of new connections. This cost varied from about \$760

in 1986 to \$800 in 1991. Applicant suggests that the \$90 (\$75. + \$15) contribution figure, in effect since 1983, be updated as shown in the chart, above.

Branch believes the requested connection charges by applicant, with the exception of TRWD special connection fee, are reasonable and should be adopted.

In a letter to applicant dated December 14, 1990, TRWD indicated that, as of January 1, 1991, it would collect the TRWD special connection fee directly from the customer under the following conditions:

1. All new customers (or customers experiencing an increase or change in sewage effluent) shall be sent to TRWD with a letter from applicant requesting authorization to connect to the Gibbs Ranch collection system.
2. Upon payment being made to TRWD for all applicable sewer connection charges, the letter of authorization will be marked "paid" and a copy returned to the customer as validation that TRWD has been satisfied and connection to applicant's system may proceed.
3. Gibbs Ranch agrees that no customer shall receive service or be connected to the system until all fees have been paid. Gibbs Ranch remains responsible for payment of fees to TRWD and also for any penalties if connections are made prior to payment of connection fees, per TRWD sewer ordinance.

In view of the above information, Branch recommends that the TRWD special connection fee in the applicant's proposed tariff Schedule No. 4 be eliminated.

We adopt Branch's recommendations.

Service

A field inspection of applicant's system was made on November 7, 1990, and it was found to be properly maintained and operating satisfactorily.

Notice of the proposed rate increase and public meeting was mailed on October 17, 1990 to each customer. Two letters of protest were received concerning the proposed increase. The first letter, signed by four customers, claimed that the increase was not justified because the company had not incurred any recent additional capital expenses. The second letter requested that the bedroom charges be discontinued.

On October 17, 1990 a public meeting attended by about 25 individuals was held in the vicinity of the applicant's service area. Branch's representative explained Commission rate setting procedures and the applicant's representative explained the need for the rate increase.

In addition to protesting the magnitude of the increase, most of the attendees complained about the inequity of bedroom charges. Some of the customers are elderly couples occupying three or four bedroom houses. It was agreed that it was difficult to quantify the number of occupants in a house based on the number of bedrooms. Applicant informed the attendees that it had no objection to charging one flat-rate for all residences regardless of the number of bedrooms. The Branch indicated that it would look into the possibility.

Branch found service provided by the applicant to be satisfactory. The Commission's Consumer Affairs Branch has not received any complaints against the applicant for the last three years.

By letter dated November 29, 1990, the Tuolumne County Health Department informed Branch that there had been no complaints against the applicant for the past three years.

Findings of Fact

1. Gibbs Ranch, a California corporation, provides sewer service to approximately 462 customers in an unincorporated area of Tuolumne County about a mile west of Sonora.

2. Applicant requests authority to adjust rates for sewer service to increase revenues for 1991 by \$20,680 or 24.9%.

3. The increase in rates authorized by this decision is expected to provide increased revenue for 1991 of \$11,770 or 14.14%.

4. The Adopted Summary of Earnings for 1991 sets forth reasonable estimates of the levels of revenues and expenses which are likely to occur.

5. A rate of return of 10.74% on applicant's rate base is reasonable.

6. The rate design proposed by applicant and Branch is reasonable.

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

8. An increase in applicant's connection charges for new customers from the present \$90 to \$670 if the connection is off paved streets, and \$810 for connections in paved streets is reasonable.

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

Conclusion of Law

Application 90-09-032 should be granted to the extent provided by the following order, the adopted rates being just, reasonable, and nondiscriminatory.

ORDER

IT IS ORDERED that:

1. Gibbs Ranch Sewer Company is authorized to file revised tariff schedules attached to this decision as appendixes and to concurrently cancel its present schedules for such service. This filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be 5 days after the date of filing.

filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. The application is granted as set forth above.

This order is effective today.

Dated July 24, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SHULMAN, Executive Director

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APPENDIX A
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Schedule No. 1

RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service.

TERRITORY

The area known as Rancho Sonora Estates Subdivision located one mile northwest of Sonora, Tuolumne County.

FLAT RATES

	<u>Per Month</u>	
For each residential unit.....	\$ 17.14	(N)

SPECIAL CONDITIONS

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

APPENDIX A
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Schedule No. 4

CONNECTION CHARGES TO RESIDENTIAL CUSTOMERS

APPLICABILITY

Applicable to Residential Customers.

TERRITORY

The area known as Rancho Sonora Estates Subdivision located one mile northwest of Sonora, Tuolumne County.

RATES

	<u>On Paved Street</u>	:	<u>Off Paved Street</u>
Connection Charge	\$790	:	\$650
Inspection Charge of Connection	20	:	20

(END OF APPENDIX A)

APPENDIX B

ADOPTED QUANTITIES

Name of Company: Gibbs Ranch Sewer Company

1.	Net-to-Gross Multiplier:	1.297	
2.	Federal Tax Rate:	15.0%	
3.	State Tax Rate:	9.3%	
4.	Purchased Water:	None	
5.	Purchased Power:		
	Pacific Gas & Electric Co.		
	Rate Schedule		A-1P
	Effective Date		1/1/90
	kWh Used - Total		1,800
	kWh Used - Winter		959
	kWh Used - Summer		841
	\$ per kWh - Winter		0.12150
	\$ per kWh - Summer		0.09986
	Winter Charge		\$102.22
	Summer Charge		\$ 95.73
	Service Charge		\$210.00
	Energy Commission Surcharge		\$ 0.36
	Total Purchased Power		\$410.00
6.	Payroll:		
	Employee Labor		\$13,000
	Office Salary		\$ 4,000
	Management Salary		\$ 6,360
	Total Payroll		\$23,360
	Payroll Taxes		\$ 2,325
7.	Sewer Treatment Expenses		\$34,650

(END OF APPENDIX B)

APPENDIX C

INCOME TAX CALCULATION
Test Year 1991

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$95,010	\$95,010
2.	Expenses	77,850	77,850
3.	Payroll Taxes	2,325	2,325
4.	Depreciation	6,442	6,442
5.	Interest	0	0
6.	Taxable Income for State Tax	14,393	
7.	State Tax @ 9.3%	1,339.	
8.	Taxable Income for FIT		13,054
9.	Federal Income Tax @ 15%		1,958
10.	Total Income Tax		\$3,297

(END OF APPENDIX C)