

APR - 6 1982

ORIGINAL

Decision 82 04 017

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 JACKSON WATER WORKS, INC., for authority) Application 60048
 to increase rates charged for water) (Filed October 31, 1980)
 service in the City of Jackson and)
 adjacent territory in Amador County.)

John H. Engel, Attorney at Law, for
 Jackson Water Works, Inc., applicant.
Alvin S. Pak, Lynn T. Carew, and
Brian T. Cragg, Attorneys at Law,
 for the Commission staff.

O P I N I O N

In Application (A.) 60048, Jackson Water Works, Inc. (Jackson) seeks authority to increase its rates and charges for water service within its service area.

The amount of the proposed increase for metered service is \$269,200 or an increase of 120% in 1980 over pro forma revenues at present rates. The amount of the proposed increase in 1981 is \$71,300 or 14%, and in 1982 is \$56,700 or 10%. As a practical matter, since any increased rates will commence in 1982, Jackson here seeks additional revenues for 1982 of \$397,200, the total of the 3 step increases set forth in its application.

A duly noticed public hearing was held before Administrative Law Judge (ALJ) Orville I. Wright in Jackson on April 21, 1981 through April 24, 1981, and in San Francisco on June 8, 9, 10, 11, 12, 15, and 16, 1981. Final submission date for the last of the issues involved in these proceedings was September 14, 1981.

Discussion of the issues resolved in this proceeding is contained in D.82-02-059, Citizens-California's Sacramento County Water District and in D.82-03-023, Citizens-California's Guerneville Water District. That discussion on common issues is incorporated by reference.

Summary of Decision

Jackson is entitled to a revenue increase of \$225,810 for the year 1982, which would be an increase of 95.7% over present rates. However, to minimize the impact on consumers the rate increase for 1982 is limited to 50%, with the difference being deferred for step rate increases in 1983 and 1984.

A rate of return of 12.04% on rate base is found reasonable. Return on equity is 13.2%.

Tables I and II, following, show the summary of earnings and rate base for the 1981 test year.

TABLE I

Jackson Water Works, Inc.
1981 Summary of Earnings

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted Revenues & Expenses</u>	<u>Adopted Rates</u>
Operating Revenues					
Metered	\$ 234,200	\$ -	\$ 234,200	\$ 234,200	\$ 460,010
Flat Rate	-	-	-	-	-
Private Fire Protection	1,600	-	1,600	1,600	1,600
Other	100	-	100	100	100
Total Operating Revenues	235,900	-	235,900	235,900	461,710
Operating Revenue Deductions					
Salaries and Wages	66,000	-	66,000	66,000	66,000
Materials, Serv. & Misc.	27,630	-	27,630	27,630	27,630
Purchased Power	6,480	-	6,480	6,480	6,480
Purchased Water	17,610	4,440	13,170	13,170	13,170
Customer Acct. & Misc.	11,100	3,200	7,900	7,900	7,900
Transportation Expense	10,340	-	10,340	10,340	10,340
Telephone and Telegraph	1,400	-	1,400	1,400	1,400
Banking Charges	-	-	-	-	-
Uncollectible Accounts	410	-	410	410	820
Administrative Office Exp.	31,800	1,500	30,300	31,800	31,800
Legal and Reg. Com. Exp.	13,400	8,450	4,950	13,400	13,400
Insurance	700	100	600	700	700
Injuries and Damages	4,200	2,000	2,200	4,200	4,200
Welfare and Pensions	16,700	2,500	14,200	16,700	16,700
Rents	2,600	-	2,600	2,600	2,600
Balancing Account (TIA)	-	-	-	(2,700)	(2,700)
Franchise Tax	3,140	-	3,140	3,140	6,110
Ad Valorem Tax	12,930	-	12,930	12,930	12,930
Payroll Tax	5,200	-	5,200	5,200	5,200
Depreciation Expense	34,850	-	34,850	34,850	34,850
Income Taxes	200	-	200	(54,260)	63,150
Total Oper. Rev. Deductions	266,690	22,190	244,500	201,890	322,680
Net Operating Revenues	(30,790)	(22,190)	(8,600)	34,010	139,030
Average Depr. Rate Base	1,263,870	127,960	1,135,910	1,154,690	1,154,690
Rate of Return	2.44%	1.68%	(.76%)	2.95%	12.04%

(Red Figure)

TABLE II

Jackson Water Works, Inc.
Rate Base

Test Year 1981

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted</u>
Utility Plant in Service	\$1,928,100	\$ 83,130	\$1,844,970	
Depreciation Reserve	(287,200)	(2,930)	(284,270)	
Net Utility Plant in Service	1,640,900	80,200	1,560,700	\$1,560,700
Noninterest-Bearing CWIP	-	-	-	-
Materials and Supplies	13,500	-	13,500	13,500
Working Cash	88,400	47,760	40,640	61,400
Common Plant	7,300	-	7,300	7,300
Customers' Advances for Construction	(316,720)	-	(316,720)	(316,720)
Contributions in Aid of Construction	(112,610)	-	(112,610)	(112,610)
Reserve for Deferred Federal Income Tax	(56,900)	-	(56,900)	(58,880)
Total Average Depreciated Rate Base	1,263,870	127,960	1,135,910	1,154,690

(Red Figure)

For test year 1981, \$3,980 of the revenue requirement increase is due to the Economic Recovery Tax Act (ERTA). The effect could increase in the future. We will direct Jackson to notify its customers of the ERTA effect on rates (See Appendix D.)

In order to lessen the immediate impact on consumers of justified but unusually precipitous rate increases, we have adopted a policy of allowing no more than a 50% raise in rates in any one year. Consonant with this policy, we authorize a revenue increase of \$118,000 or 50% for test year 1982, the revenue difference being deferred to 1983 and 1984 as shown in Appendixes A and B. Appendix E shows the method used in deferring income and in compensating applicant for postponement of full rate relief.

Rate Design

Charges for all water service, excluding fire protection, is covered by Schedule 1, General Metered Service. Schedule 1 is a minimum charge rate structure having a 3 Ccf minimum with two additional declining cost, quantity blocks. The staff recommends that the present structure be changed to conform with Commission policy providing for a service charge structure with a 3 Ccf lifeline block and a single inverted quantity block. This will generally provide a more equitable rate structure and encourage conservation in our view, and the staff recommendation is adopted.

Description of Jackson

Jackson is a wholly owned subsidiary of Citizens Utilities Company (Citizens), a Delaware corporation. It provides water service to over 1,356 customers in and around the City of Jackson, Amador County.

Water is purchased from a nearby water division of Pacific Gas and Electric Company and delivered to Jackson's 4,000,000-gallon earthen reservoir in Martell. The water is treated at the company's Martell Reservoir and Treatment Plant for ultimate introduction into Jackson's distribution system.

In Decision (D.) 90153, April 10, 1979 Jackson was ordered to complete a specified construction program then estimated to cost \$571,582, and the company was precluded from seeking further rate relief until it had spent at least \$200,000 on the program. The expenditures were made and there is, according to staff, a marked improvement in service.

Jackson estimates that the remaining projects ordered in D.90153 will cost about \$584,600 which will amount to about \$460 for each customer now served.

Public Witness Testimony

A number of persons appeared at the hearings in Jackson to express concern over the amount of the proposed rate increases. Among them were Helen Parker, Aline Campean, Joe Biven, Mellie Carleton, Ed Bloch, David Carlson, and Anthony Pohmajeovich. Some of these customers also testified to service and quality complaints. Perry Lee Pirchard, an area resident, introduced photographs into evidence showing dramatic leakage in a main resting upon the surface of the earth. One customer, John Petkovich, applauded Jackson's improved service and supported the rate increase request.

Jackson's manager investigated and reported upon the several service complaints expressed at the hearing, and the record shows that reasonable efforts are made to minimize or eliminate problem areas in the system.

Purchased Water

For the reasons stated in D.82-02-059, Sacramento County Water District and in D.82-03-023, Guerneville Water District, we adopt staff's estimate of purchased water in the amount of \$13,170.

Staff's further recommendation that purchased water be reduced by an additional \$2,500 to reflect an unaccounted-for water

figure of 20% instead of the 39% used by Jackson is not adopted at this time. While staff correctly asserts that Jackson was unable to explain why its water losses stood at nearly twice the average cited by the American Water Works Association, the remedy it proposes seems overly severe; i.e., assuming a cost estimate for water purchases that is less than will actually be incurred. We anticipate and expect that Jackson will reduce its unaccounted-for water dramatically as its improvement program continues.

Working Cash

Jackson estimates working cash for test-year 1981 at \$88,400. Staff's estimate is \$40,640, a difference of \$47,760.

We adopt working cash of \$61,440 as follows:

Staff	\$40,640
Add:	
Min. bank balance	3,900
Deferred debits - 146	26,800
	<u>\$71,340</u>
Less:	
Staff-deferred debits	9,900
	<u>\$61,440</u>

The calculation above shows the addition of minimum bank balances to the staff estimate of working cash, the adoption of the unamortized balance of legal and regulatory expense chargeable to this proceeding since we adopt Jackson's estimate, and the deletion of staff's estimate for legal and regulatory unamortized balance.

(This is consistent with the lead decision in these matters, D.82-02-059.)

Tax Initiative Account (TIA)

Staff's computation of the balance in the Jackson TIA as of December 31, 1980 is \$8,115 which we adopt as reasonable and amortize over a three-year period commencing in 1982.

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for test year 1981 are reasonable.
2. A rate of return of 12.04% on the adopted rate base of \$1,154,730 for test year 1981 is reasonable.
3. Jackson's earnings under present rates for test year 1981 would produce net operating revenues of \$34,010 on a rate base of \$1,154,690 based on the adopted results of operations, resulting in a rate of return of 2.95%.
4. Jackson's level of water service is adequate.
5. The increases in rates and charges authorized for the year 1982 in Appendix A are just and reasonable, and the present rates and charges insofar as they differ from those prescribed, are for the future unjust and unreasonable.
6. Increases in rates authorized for 1983 and 1984 in Appendix B are just and reasonable.

Conclusions of Law

1. The application should be granted to the extent provided by the following order.
2. Because of the immediate need for additional revenues, the following order should be effective on the date of signature.

C R D E R

IT IS ORDERED that:

1. Jackson Water Works, Inc. (Jackson) is authorized to file the revised schedules attached to this order as Appendixes A and B and to concurrently cancel its present schedules for such service. This filing shall comply with General Order Series 96. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

A.60048 ALJ/jn

2. Jackson shall send its customers the bill insert set out in Appendix D on or before June 1, 1982.

This order is effective today.

Dated APR 6 1982, at San Francisco, California.

JOHN E. BRYSON

President

RICHARD D. GRAVELLE

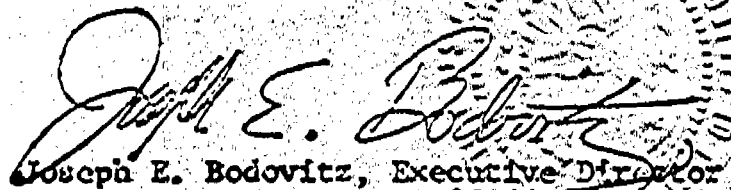
LEONARD M. GRIMES, JR.

VICTOR CALVO

PRISCILLA C. GREW

Commissioners

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


Joseph E. Bodovitz, Executive Director

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Jackson and vicinity, Amador County.

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
For the first 300 cu.ft. per 100 cu.ft.....	\$ 0.83
For all over 300 cu.ft. per 100 cu.ft.....	1.25

Service Charge:

	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meter.....	\$ 5.50
For 3/4-inch meter.....	6.10
For 1-inch meter.....	8.30
For 1-1/2-inch meter.....	11.00
For 2-inch meter.....	15.00
For 3-inch meter.....	27.50
For 4-inch meter.....	37.50

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge for water used during the billing period at the above Quantity Rates.

(END OF APPENDIX A)

APPENDIX B

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

<u>Monthly Service Charge</u>	<u>Effective Dates</u>	
	<u>1-1-83</u>	<u>1-1-84</u>
For 5/8 x 3/4-inch meter.....	\$ 1.90	\$1.10
For 3/4-inch meter.....	2.10	1.30
For 1-inch meter.....	2.80	1.80
For 1-1/2-inch meter.....	3.80	2.40
For 2-inch meter.....	5.00	3.50
For 3-inch meter.....	9.50	5.50
For 4-inch meter.....	12.50	8.00
 <u>Quantity Rates:</u>		
For the first 300 cu.ft., per 100 cu.ft.....	\$ 0.28	\$0.18
For all over 300 cu.ft., per 100 cu.ft.....	0.43	0.26

(END OF APPENDIX B)

APPENDIX C
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ADOPTED QUANTITIES

Company: Jackson Water Works

	<u>1981</u>	
	Ccf (1,000)	
1. <u>Water Production:</u>		
Purchased Water	363.9	
2. <u>Electric Power:</u>		Supplier: PG&E Date: 2-9-81
kWh	98,975	
Cost	6,480	
Cost per kWh	\$0.065471	
3. <u>Ad Valorem Taxes:</u>	\$ 12,930	
Eff. Tax Rate	1.16%	
4. <u>Net-To-Gross Multiplier:</u>	2.0838	
5. <u>Local Franchise Tax Rate:</u>	1.33%	
6. Uncollectible Rate:	0.18%	
7. Metered Water Sales Used To Design Rates:		

	<u>Range - Ccf</u>	<u>Usage - Ccf</u>
		1981
Block 1	0-3	43,025
Block 2	Over 3	<u>178,991</u>
Total Usage		222,016

APPENDIX C
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8. Number of Services:

	<u>No. of Services</u> <u>1981</u>	<u>Usage-KCcf</u> <u>1981</u>
Commercial-Metered	1,356	222.0
Subtotal	1,356	222.0
Total	1,356	
Unaccounted for Water		141.9
Total Water Produced ^{1/}		363.9

9. Number of Services (By meter size)

<u>Meter Size</u>	<u>1981</u>
5/8 x 3/4"	1,220
3/4"	45
1"	37
1 1/2"	16
2"	34
3"	3
4"	1
Total	1,356

Revenue Adjustment factor = 1.00

^{1/} Authorized expense of \$13,170 will purchase 363.9 KCcf.

APPENDIX C

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INCOME TAX CALCULATION

Item	1981
<u>State Franchise Tax</u>	
Operating Revenue	\$ 461.7
<u>Expenses</u>	
O&M, A&G, and Taxes Other Than Income	224.7
<u>Deductions and Adjustments</u>	
Clearing Accounts	(4.5)
Deductible Expense Capitalized	2.4
Interest	33.5
Subtotal - Deductions	31.4
State Tax Depreciation	97.3
Net Taxable Revenue	108.3
CCFT at 9.6%	10.4
<u>Federal Income Tax</u>	
Operating Revenue	461.7
Expenses	224.7
Deductions	31.4
FIT Depreciation	72.2
CCFT	10.4
Taxable Income	123.0
Federal Income Tax at 46%	56.6
Graduated Tax Adjustment	(0.5)
Investment Tax Credit	(3.4)
FIT	52.7

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for Jackson Water Works, Inc.

One item of expense in the rate increase recently granted to Jackson Water Works, Inc. for the year 1982 by the Public Utilities Commission amounting to \$3,980 is attributable to President Reagan's Economic Recovery Tax Act of 1981, which requires the Public Utilities Commission to charge ratepayers for the expense of taxes which are not now being paid to the Federal Government and which may never be paid. This expense may increase in the future.

(END OF APPENDIX D)

APPENDIX E

<u>1982</u>	<u>Adopted</u>	<u>Distribution</u>
	(Dollars in Thousands)	
Present Rate	\$ 235.9	\$ 235.9
Adopted	461.7	353.9
Increase	225.8 (95.7%)	118.0 (50%)
<u>1983</u>		
Present	461.7	353.9
Adopted	461.7 (9.2 ^{a/} + 1.0 ^{b/})	471.9
Increase		118.0
<u>1984</u>		
Present	461.7	471.9
Adopted	461.7 (71.7 ^{a/} + 16.2 ^{b/})	549.6
Increase		77.7

a/ Deferred amount $\$225.8 - \$118.0 = \$107.8$

For 9 months $\$107.8 \frac{(9)}{(12)} = \80.9

Distribution (\$ 9.2 in 1983
(\$ 71.7 in 1984

b/ Interest to be recovered in:

1983 \$ 9.2 (12.04%) $\frac{(21)}{(24)} = \$1.0$

1984 \$71.7 (12.04%) $\frac{(45)}{(24)} = \$16.2$

(END OF APPENDIX E)