

ORIGINAL

Decision 82 04 0S3 APR 2 1 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of TAHOE SWISS VILLAGE UTILITY, a)
California unincorporated utility,)
for Authority to Increase its)
Rates and Charges for Water Service.)

Application 61049
(Filed November 12, 1981)

Melvin E. Mezek, for Tahoe Swiss Village
Utility, applicant.
Patricia A. Bennett, Attorney at Law, and
Alex Chocas, for the Commission staff.

O P I N I O N

By this application Tahoe Swiss Village Utility (Tahoe Swiss or applicant) requests authority to increase its rates for water service by 91.7%. Applicant's last rate increase was effective January 1, 1977.

A properly noticed public hearing was held in Tahoe City on February 16, 1982; although applicant sent a notice to each of its customers which summarized the increase requested and gave the date of public hearing on the application, no one appeared except applicant and the Commission staff (staff). However, 10 letters from Tahoe Swiss customers were received by the Commission protesting the size of the increase.

Tahoe Swiss serves about 70 customers in an area near Homewood, California, on the west shore of Lake Tahoe. Water is pumped from Lake Tahoe and distributed to customers through about 10,000 feet of mains varying in size from two to four inches.

Ordinarily we limit water utility rate increases to 50% at one time. Here, the authorized increase is 67%. However, given the small size of the utility and the absence of customers at the hearing, we will authorize a 67% rate increase. Also, no proposal for step rates was advanced, which would allow a mechanism for limiting a first step increase to 50%. The 67% increase is for less than the 91.7% increase requested.

Applicant claims it will be necessary to make some capital improvements to its system over the next year in order to maintain and improve present service. It pleads that without the increase requested it will not have funds for improvements, the cash to conduct an efficient business, nor earnings sufficient to provide a reasonable return on common equity. Other than a short-term personal loan of \$2,000 to Mrs. Cora Frost, who owns and manages Tahoe Swiss, capitalization is 100% equity.

Applicant's present tariffs provide for metered and flat rate service. No customers are currently on meters. Applicant proposes to cancel rates for metered service and raise flat rate service for a single-family residential unit from \$110 per year to \$210.90. The charge for each additional single-family unit on the same premises and served from the same service connection would be increased to \$140.35 per year from \$73.20.

Applicant and staff presented estimated results of operations for test year 1981. Applicant also had ready by the date of hearing a preliminary annual report containing revenue and expenses for 1981. The reason a later period such as 1982 was not used was that applicant originally intended to seek the increase through an advice letter filing, a draft of which was filed with staff in the spring of 1981.^{1/} Staff asked for additional information July 21, 1981 and applicant furnished that information on August 3, 1981. On October 9, 1981 staff wrote applicant recommending that applicant's other water corporation, Tahoe Pines Water Company (Tahoe Pines), should be interconnected with Tahoe Swiss and both operated as one unit. Rates for Tahoe Swiss would be raised to the level of

^{1/} There is some uncertainty as to the date this was done. Applicant claims April 29, 1981 and staff shows May 19, 1981. ✓

Tahoe Pines.^{2/} Applicant rejected the suggestion and filed this application November 12, 1981 including as its estimated results of operations the data for 1981 shown in its advice letter draft. On December 9, 1981 staff wrote applicant suggesting that its application be amended to reflect a test year of 1982 unless applicant stipulated that the data contained in the application for 1981 would be appropriate for 1982. Applicant did so stipulate. Accordingly, staff decided to stand on its September 1981 estimate.

Estimates of applicant and the staff are shown on Table 1 together with the preliminary 1981 recorded totals. A discussion of the major differences in those estimates follows. For those accounts not discussed we will adopt applicant's estimates.

Revenues-Present Rates

Applicant	\$8,140
Staff	<u>8,660</u>
Difference	520

The difference is minor and we will adopt applicant's estimate which is based on estimated customers times present rates whereas the staff's is based on 1980 recorded revenues. Recorded revenues may be unreliable (e.g. see \$7,144 preliminary for 1981, Table 1) because applicant bills once a year on September 15th, but not all revenues are received in the year billed.

^{2/} Tahoe Pines requested a rate increase to \$189 per year by draft advice letter filed July 30, 1981.

TABLE 1

Tahoe Swiss Village Utility
Results of Operations - 1981
At Present Rates

	<u>Estimated</u>		<u>1981 Annual Report^{1/}</u>
	<u>Applicant</u>	<u>Staff</u>	
Revenues	\$ 8,140	\$ 8,660	\$ 7,144
<u>Expenses</u>			
Pumping Power	828	820	1,122
Materials	270	100	200
Contract Work	2,000	1,130	1,951
Management Salary	4,830	3,500	4,428
Office Suppl. & Exp.	850	345	1,130
Insurance	200	90	267
Accounting & Legal	400	-	1,075
General Expense	465	190	546
Vehicle Expense	550	70	140
Rents	300	225	200
Depreciation	1,584	1,577	1,722
Operating Taxes	<u>122</u>	<u>122</u>	<u>131</u>
Total Expenses	12,399	8,169	12,912
Taxable Revenue	(4,259)	491	(5,768)
Income Taxes	<u>-</u>	<u>-</u>	<u>-</u>
Net Revenues	(4,259)	491	(5,768)
Rate Base	27,893	26,160	27,940 ^{2/}
Rate of Return	-	1.88%	-

(Red Figure)

^{1/} Unaudited preliminary report (Exhibit 2).^{2/} Average of beginning and end of year.

Materials

Applicant	\$270
Staff	<u>100</u>
Difference	170

Applicant based its estimate on 1980 recorded totals. Staff claims the recorded total was for an expenditure that should have been capitalized. However, staff conceded it made no adjustment to rate base for the item. We will adopt applicant's 1981 total of \$200.

Contract Work

Applicant	\$2,000
Staff	<u>1,130</u>
Difference	870

Applicant estimated an increase in this account for 1981. Because the husband of the present owner and manager of Tahoe Swiss passed away, the maintenance and repair work that he performed must now be contracted out. Applicant offered Exhibit 3 which applicant's consulting engineer claimed portrayed the yearly contract maintenance and repair work needed to keep applicant's operation in top condition. The total cost shown on that exhibit is \$5,070 per year. The consultant conceded this was the ideal and Tahoe Swiss could not afford to finance such a program during 1981.

Staff's estimate included \$700 for standby help, \$240 for repairs, and \$190 for water samples. Again, as in its materials estimate, staff claimed applicant included \$1,276 in the account that should have been capitalized. Staff claimed that it appeared applicant had also capitalized a similar, although not identical amount (that is, applicant made a double entry in its books). However, on cross-examination, the staff engineer conceded he had not verified this and so could not support his estimate. Applicant demonstrated the two amounts were for different purposes. We will adopt applicant's estimate of \$2,000.

Management Salary

Applicant	\$4,830
Staff	<u>3,500</u>
Difference	1,330

Applicant's estimate is for one-fourth of an allowance to the present owner-manager of \$19,320 per year for both Tahoe Swiss and Tahoe Pines, which respectively have about 25% and 75% of the total customers of the two utilities.

Staff's estimate is based on a total salary of \$17,000, which it believes is proper for management of a water utility having about 300 customers. Assuming Tahoe Swiss to have 74 customers, staff allowed $74/300 \times \$17,000$ or \$4,200 for the manager of Tahoe Swiss. However, staff reduced this by the \$700 it included in its estimate for contract work on the basis that the widowed manager should be doing that work. We will adopt the staff's estimate of \$4,200 but not its reduction of \$700.

Office Expenses

Applicant	\$850
Staff	<u>345</u>
Difference	505

The office for both Tahoe Swiss and Tahoe Pines is located in the home of the owner. Applicant's recorded expenses and rate year estimates apparently do not reflect the personal use of the residence or appropriate allocations to the two utilities. Staff, on the other hand, made a detailed analysis of billing and collecting, basic and long-distance telephone service, telephone directory advertising, telephone answering service, and utility bills, and allocated these among personal use, Tahoe Swiss operations, and Tahoe Pines operations. We will adopt the staff's estimate.

Insurance

Applicant	\$200
Staff	<u>90</u>
Difference	110

Staff estimated a total of only \$224 insurance per year for all three of the vehicles used in applicant's operations. Its allocation to Tahoe Swiss of \$90 stemmed from a total insurance cost starting point of \$224. This is extremely low. Applicant's \$200 estimate was the result of reasonable allocation. We will adopt applicant's estimate.

Accounting and Legal

Applicant	\$400
Staff	<u>-</u>
Difference	400

Staff made no allowance for this account because only \$27 was recorded in the account during the period 1975 through 1980. Applicant used one-third of its consultant's \$1,200 charge for work on this application, which we believe is a reasonable charge and amortization of a nonrecurring expense.

General Expense

Applicant	\$465
Staff	<u>190</u>
Difference	275

Staff claims applicant's charges to this account are, under the Commission's Uniform System of Accounts, properly chargeable to other accounts and estimates for those accounts include some of the estimates for this account. For instance, staff claims the consulting fee of \$400 discussed under accounting and legal should be included in this account and did include one-third of the \$400^{3/} in its \$190 estimate, the remainder of the \$190 being \$55 for uncollectibles. We will adopt staff's uncollectibles recommendation

^{3/} Staff believes \$400 is an appropriate total charge for the work done by applicant's consultant.

for this account and, whether correctly assigned to that account or not, leave the \$400 for consulting fees in accounting and legal.

Vehicle Expense

Applicant	\$550
Staff	<u>70</u>
Difference	480

Again, as in other accounts, staff allocated vehicle expense among the utilities and personal uses. In addition, staff amortized certain 1980 actual expenses such as tires and repairs over a five-year period which appears to be longer than appropriate. We will adopt applicant's 1981 recorded total of \$140 (four-year amortization). ✓

Revenues - Proposed Rates

Applicant	\$15,606
Staff	<u>17,010</u>
Difference	1,404

Applicant's estimate is the result of increasing its estimate of \$8,140 under present rates by 91.7%, the percentage increase from present to proposed rates. Staff adopted applicant's \$15,606 but added 10 new customers at the "additional unit" proposed rate of 140.35 or \$1,404. Staff did not explain its inclusion of the 10 new customers nor why they were not included in staff's revenue estimate under present rates. The record shows that applicant actually had a net loss of one customer in 1981 compared to 1980, 71 versus 72. We will adopt applicant's estimate.

Rate of Return

Tahoe Swiss requests an overall 11.5% rate of return on rate base. Because applicant is entirely equity-financed except for the short-term loan mentioned previously, the 11.5% would also be the return on equity. Staff did not contest applicant's requested return and we find it to be reasonable.

Results of Operations
And Income Tax Expense

Table 2 shows a test year results of operations for applicant using the revenues, expenses, and rate base previously discussed and adopted. Under present rates applicant would show a loss of \$2,240 per year and under proposed rates a profit of \$5,230 which produces an 18.8% return on rate base.

Applicant's consultant testified that no significant income taxes would be due on applicant's Tahoe Swiss operation.

TABLE 2

Tahoe Swiss Village Utility
 Adopted Test Year Results of Operations
 For Ratemaking Purposes

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Revenues	\$ 8,140	\$15,610	\$13,590
<u>Expenses</u>			
Pumping Power	830		
Materials	200		
Contract Work	2,000		
Management Salary	4,200		
Office Suppl. & Exp.	350		
Insurance	200		
Accounting & Legal	400		
General Expense	60		
Vehicle Expense	140		
Rents	300		
Depreciation	1,580		
Operating Taxes	120		
Total Expenses	<u>10,380</u>	<u>10,380</u>	<u>10,380</u>
Taxable Revenue	(2,240)		
Income Taxes	<u>-</u>	<u>-</u>	<u>-</u>
Net Revenues	(2,240)	5,230	3,210
Rate Base	27,890	27,890	27,890
Rate of Return	-	18.8%	11.5%

(Red Figure)

Adopted Rates

Applying applicant's requested 11.5% rate of return to the adopted rate base of \$27,890 produces a net revenue requirement of \$3,210. Adding expenses of \$10,380 to that figure produces a gross revenue requirement of \$13,590. (See Table 2.) Comparing the \$13,590 to the \$8,140 under present rates produces a rate increase requirement of 67.0%. We will authorize Tahoe Swiss to increase its present flat rate charges of \$110 and \$73.20 to \$184 and \$122, respectively.

Staff opposed applicant's request to cancel its unused metered service tariff on the grounds that applicant may, at some future time, install a meter to control the usage of a possible wasteful customer. We fail to see how applicant could, without discriminating, reasonably determine a wasteful user when all customers are on a flat rate. Applicant's consultant testified it would be very costly to install and read a meter for an individual customer. We will adopt applicant's proposal to delete metered service from its tariff.

Economic Recovery Tax Act (ERTA)

Because of applicant's testimony concerning income tax liability, this decision will not impair applicant's options under ERTA.

Findings of Fact

1. Tahoe Swiss is a public utility water corporation subject to the jurisdiction of this Commission.
2. Tahoe Swiss requests an overall increase in water rates of 91.7% which would produce \$7,466 additional annual revenue.
3. A properly noticed public hearing on this application was held at which all interested parties were given the opportunity to appear and be heard.

4. Estimated revenues of \$8,140 under present rates for a test year are reasonable.

5. Estimated operating expenses of \$10,380 and a rate base of \$27,890 under present, proposed, and authorized rates are reasonable.

6. Estimated revenues of \$15,610 under proposed rates for a test year are reasonable.

7. An overall rate of return of 11.5% on rate base is reasonable.

8. Applicant's proposed rates produce an 18.8% overall return on rate base which is unreasonable.

9. Applicant's proposed rates are not justified.

10. An increase in applicant's rates of 67.0% is justified, will result in a rate of return of 11.5% on rate base, and will produce rates which are reasonable.

11. There is no need for applicant to continue tariff provisions for metered service or rates for such service.

12. This decision will not affect applicant's options under ERTA.

13. It is reasonable to make the effective date of this order today because applicant is operating at a loss.

Conclusion of Law

Based on the foregoing findings of fact and Section 454 of the Public Utilities Code, the Commission may authorize Tahoe Swiss to amend its tariff as provided for in the following order.

O R D E R

IT IS ORDERED that:

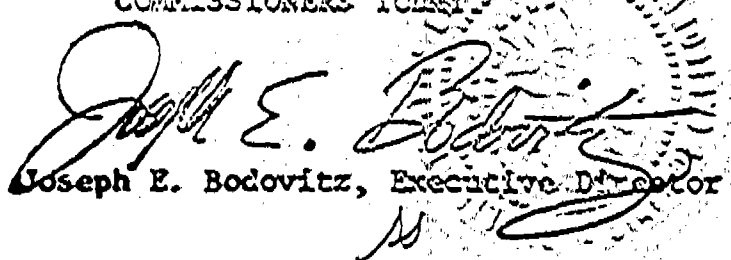
1. After the effective date of this order Tahoe Swiss Village Utility is authorized to file a revised tariff schedule reflecting:
 - a. A flat rate of \$184 per year for a single-family residential unit,
 - b. A flat rate of \$122 for each additional single-family residential unit on the same premises and served from the same service connection,
 - c. Cancellation of metered service and rates, and concurrently cancel its presently effective schedule. Such filing shall comply with General Order 96-A.
2. The effective date of the revised schedule authorized by Ordering Paragraph 1 shall be 4 days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.
3. In all other respects Application 61049 is denied.

This order is effective today.

Dated APR 21 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

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


Joseph E. Bodovitz, Executive Director

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