

Decision 82 06 018

JUN 2 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the DUNSMUIR WATER )  
CORPORATION, Dunsmuir District, )  
to increase rates. The revenue )  
increase proposed is 20%; inverted )  
residential rates are proposed. )

Application 61150  
(Filed December 24, 1981)

William Heilman and Willis Thompson, for applicant.  
Patricia Bennett, Attorney at Law, and Edward Cooke,  
for the Commission staff.

O P I N I O N

Background

Dunsmuir Water Corporation (Applicant) serves two areas: the City of Dunsmuir and contiguous territory (about 1,071 customers) and Fort Jones (250 customers). This application involves the City of Dunsmuir territory. Applicant is controlled and operated by Willis Thompson, who acquired control of the system in 1979. He is also a trenching contractor operating in the vicinities around Dunsmuir.

The community of Dunsmuir, near Mount Shasta, once centered around Southern Pacific's rail operations in the era of steam-powered railroading as a coal and watering stop. Now, although Southern Pacific still has facilities in Dunsmuir, Applicant and staff characterize the community as largely centered around retirees and the tourist industry (e.g. motels).

Shortly before Thompson acquired the system, its predecessor took over a water system serving about 70 customers near the edge of Dunsmuir called Shasta Retreat. That system was in shambles, neither having a safe or healthy water supply nor adequate distribution facilities. By Decision (D.) 89867 in

Case 8936, et al., issued January 16, 1979, we directed a five-year program of improvements and allowed the filing of rate base offset advice letters once annually as an inducement to encourage the needed overall upgrading of the Shasta Retreat portion of the system.

Applicant's water supply is from springs and, with the exception of a couple of booster pumps, it is a gravity system. The water is untreated. The community boasts of its water quality; we note the City of Dunsmuir's official stationery states "Home of the Best Water on Earth."

#### Summary

This decision finds Applicant in need of \$34,650 additional revenue to allow it the opportunity to earn an 11.0% rate of return; this is a 24.5% increase in revenues. Existing rates are increased by 24.3%, with the exception of unmetered flat rate service which is increased from \$2.50/month to \$5.00. Applicant's service is satisfactory and its proposed construction program to replace old mains and upgrade the Shasta Retreat portion of the system is reasonable. Applicant is seeking a low interest loan for about \$691,000 from the State Department of Water Resources to replace its collection-storage tank. Those repairs and the loan were not addressed in this proceeding, but will be the subject of a subsequent application. ✓

#### Procedural History

Last fall Applicant submitted a draft advice letter to our Hydraulic Branch, as, ordinarily, rate matters of this type are handled by an advice letter filing. Applicant, as directed by staff, noticed all customers of the draft advice letter, which proposed a 20% increase in gross revenues and a service charge-inverted rate design. Applicant proposed the new rate design because it was told by staff that only that rate design would comport with Commission policy. About 20 letters of protest were received. Community groups and customers asked for a hearing. The draft advice letter was converted into an application,

assigned a Commissioner, and referred to Administrative Law Judge (ALJ) Alderson. A hearing was scheduled in Dunsmuir for April 7, 1982. However, on March 17, 1982 the ALJ changed the hearing location to San Francisco because of severe travel budget restraints. This caused another round of protest letters, essentially saying the community of Dunsmuir was being denied a fair hearing. Then on April 1, we received what amounted to an amended or updated showing by Applicant requesting a 44% revenue increase. Applicant mailed special notice to all customers of its revised rate proposal. This prompted more protest letters complaining of the higher proposed rates, the hearing location, and late notice of the proposed higher rate increase.

The hearing was held on April 7 in San Francisco. The ALJ allowed Applicant to present its updated showing with a 1982 test year, which the staff also addressed in its revenue requirement study. The ALJ explained there was a potential problem with the late updating and adequacy of notice. At the end of the hearing, the proceeding was taken off calendar pending analysis of the situation.

#### Revenue Requirements Issues

At the outset of the hearing, Applicant and staff stated they reached agreement on all revenue requirement issues except revenues, rate base, regulatory expense, and rate of return. We will address each of those issues.

#### Revenues

The issue is what level of consumption per customer should we use in estimating revenues at present and adopted rates? Applicant proposed using 1980 recorded consumption, saying this would reflect the sales reduction caused by the last rate increase, in late 1979. Staff used a five-year average. The difference between these methods is about \$1,200. Staff's witness Edward Cooke testified that the five-year average would produce a more stable figure reflecting many variables.

Dunsmuir's water supply was not affected by the 1977 drought. Given the testimony throughout the hearing about the number of customers on fixed incomes and the overall depressed economic picture in Dunsmuir, we can understand how the last rate increase could pointedly have affected sales. In these circumstances, we think Applicant's use of 1980 data is more reflective of test year conditions and our adopted test year revenues will reflect Applicant's consumption per customer.

Applicant assumed, under present rates, that \$5,081 annually would be received for public fire protection from the City of Dunsmuir. Staff assumed the City would cease paying Applicant in view of relatively recent legislation allowing fire protection districts to cease paying for hydrant maintenance. Thompson testified he knew nothing of any plans the City may have to exercise its option not to pay. Cooke said he presumed the City, given the option, would not pay. In any event by Resolution L-213 issued December 18, 1979, we provided a means by advice letter offset to make utilities whole when fire protection districts cease paying utilities. Our adopted revenues will include the \$5,081 for test year 1982. If circumstances change, Applicant can file an advice letter for an offset.

Rate Base

Applicant and staff differ by \$2,350 on the total average rate base for 1982, with staff estimating a slightly higher rate base. The cross-examination of Applicant seemed to center on Applicant's ability to make the plant additions or system improvements it estimates for test year 1982. Apparently, the concern is that it is well into 1982, the work has not started, and a return on plant may be authorized without the plant's being in service during calendar year 1982. Applicant's position is essentially that it would like to do the construction but is without adequate earnings. For example, it made improvements worth \$16,000 in Shasta Retreat during 1980 but could not seem to get the rate base offset advice letter filing processed by staff.

Consequently, Applicant expects rate relief before committing to do the rest of the work (about \$53,000). Applicant strikes us as a conscientious water system operator, and we note the system improvements are anticipated over a 12-month period (the next 12 months following our adopting an estimated construction budget as a component of rate base and setting rates). Applicant states most of the improvements and replacements will be made by its employees, and we believe the improvements can be made in the next 12 months. Both Applicant and Cooke estimate \$142,868 for 1982 plant additions. We will adopt staff's average test year rate base of \$324,420. Although staff and Applicant differed on some rate base components, we find staff's showing better supported.

Applicant testified that its reservoir or collection facility at its spring needs considerable work. The tank, built in 1926, is rotten and the purity of the water supply is threatened. It is seeking a \$691,000 loan from the Department of Water Resources, administered under the Safe Drinking Water Bond Act. If approval comes from that agency, Applicant must then file with this Commission for approval of a rate surcharge. None of the cost for that work is included in the test year plant additions adopted in this proceeding; and, indeed, there was testimony that the main repair and replacement activity covered in the test year construction program does not qualify for a low interest loan.

#### Regulatory Expense

Staff accepts Applicant's updated estimate of annual regulatory expense, but amortizes it over three years to arrive at staff's test year amount. Staff accepted \$3,570 or, amortized, \$1,190 for the test year. Applicant presented us the \$3,570 estimate in its revised showing (Exhibit 2), but then revised that figure in Exhibit 3, which lists a total of \$5,410. Exhibit 3 reflects travel expense for Applicant's attending the hearing in San Francisco, revising its results of operations showing, and a second notice mailing to customers. The issue is

what level of regulatory expense is proper for the test year: \$3,570 or \$5,410 amortized over the period between rate proceedings? Ordinarily a Class C water utility's rate matters are processed by advice letter filings and Commission resolutions; and public hearings, in the absence of service problems, are infrequent. Much of Applicant's expense seems attributable to the owner's (Thompson) being relatively new as a public utility operator and feeling beleaguered by dealing with our rules, procedures, and staff. Since Applicant is embarking on getting a low interest loan from the Department of Water Resources, which must ultimately be processed by us, we foresee regulatory expense continuing at a level a little higher than many Class C water utilities. But we also assume there is a learning curve that comes with experience. Applicant did not adequately explain the \$1,500 included in Exhibit 3 as "Attorney and local expenses." Weighing these factors, we will adopt \$1,303 as the test year regulatory expense (this is \$3,910 amortized over 3 years). We are, then, adopting Applicant's estimate but reducing it by \$1,500, the amount which was not supported by Applicant. We amortize this expense as proposed by our staff because it is largely nonrecurring in the sense it runs with cycles.

#### Rate of Return

Applicant has no debt. The only debt it contemplates would be the low interest loan, but as it would be expensed, Applicant would still have an all equity capital structure. Applicant's witness Heilman, a certified public accountant from Dunsmuir, testified that a 12.7% return on rate base is reasonable. He said Applicant should not be penalized because it has no debt. Staff recommends an 11% return. Cooke testified that was the return the Revenue Requirements Division said would be reasonable for an all equity Class C water utility. The return on rate base Applicant requests is in the range that might be appropriate for a utility with considerable debt and concomitant risk.

We note that Thompson, in owning the applicant corporation, has both an investment and long-term family occupation. He receives payments for his management activity; reasonable charges for his labor are capitalized into rate base when he or his trenching company participates in construction efforts, and his wife is paid for helping with monthly customer billing. Applicant is not faced with raising debt or meeting debt obligations as are many water utilities. The system is very stable; a lot of growth is not projected. Essentially, it is a relatively risk-free long-term family investment for Thompson in a community that is somewhat economically depressed. Weighing these factors, we conclude a return on rate base of 11.0% is reasonable.

Service

The staff's field investigation found Applicant's service satisfactory. It noted not all the Shasta Retreat area improvements previously ordered have been made. Cooke seemed sympathetic with Applicant's frustration with getting periodic rate base offsets to cover incremental Shasta Retreat improvements. He noted that after the initial \$16,000 was invested, and Applicant was attempting to get a rate base offset, that Hydraulic Branch personnel was reduced. The staff, he explained, does not have the resources to assist operators of small water utilities with regulatory procedures as much as in times past. Thompson explained that after spending about \$1,000 in trips, calls, and accounting fees to pursue a \$1,600 rate increase for the plant investment he gave up.

Applicant is knowledgeable about the water business from the operating standpoint and is committed to providing good service, but seems a bit overwhelmed and frustrated with the regulatory-procedural end of the business. We think with diligence and experience, it will learn.

We find Applicant's service satisfactory.

Adopted Results of Operations

No other results of operations issues require discussion. The following table summarizes the test year results of operations showing of Applicant, staff, and our adopted results of operations.

Based on our adopted results of operations, Applicant needs a rate increase of \$34,650 to produce an 11.0% return on rate base. This is a revenue increase of 24.5%. The adopted reserve for federal income taxes was calculated as required by the 1981 Economic Recovery Tax Act (ERTA). The effect of ERTA on Applicant's revenue requirement is approximately \$1,100. We have been directing water utilities to send a bill insert notice to customers on the effect of ERTA on their rates. However, since Applicant uses a postcard billing, and the local newspaper is widely read in Dunsmuir, in this instance we will direct newspaper publication of the notice, which is Appendix D to this decision. ✓

Staff noted that Applicant is not booking depreciation as required by our standards for Class C water utilities. Appendix A to staff's Exhibit 4 sets out proper depreciation rates. Applicant accepted staff's depreciation reserve. We will direct Applicant to revise its depreciation accounting as recommended by staff.



TEST YEAR RESULTS OF OPERATIONS

( ) = Negative Figure

Item	Applicant		Staff		Adopted
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Operating Revenue	\$132,000	\$190,169	\$141,534	\$198,900	\$176,180
Operating Expenses					
Operating Expense	97,095 <sup>*/</sup>	108,315 <sup>*/</sup>	102,950	102,930	103,040
Taxes (other than income)	8,992	8,992	8,810	8,810	8,810
Depreciation	16,229	18,424	16,600	16,600	16,600
Taxes on Income	200	13,599	3,170	19,650	12,030
Total Expenses	\$122,516	\$149,330	\$131,530	\$147,990	\$140,480
Net Operating Revenue	(\$ 25,069)	\$ 40,866	\$ 10,004	\$ 50,910	\$ 35,700
Depreciated Rate Base	\$281,790	\$322,070	\$324,420	\$324,420	\$324,420
Return on Rate Base	(9.0%)	12.7%	3.08%	15.69%	11.00%

<sup>\*/</sup> Does not include Applicant's revised regulatory expense showing in Exhibit 3, p.2.

Rate Design

Applicant's system is metered, except for the Shasta Retreat area which it intends to meter when new distribution mains are put in. Presently it has a minimum charge declining block rate structure:

Monthly Quantity Rates:

First	500 cu.ft. per 100 cu.ft. ..\$	3.85
Next	2,500 cu.ft. per 100 cu.ft. ..	.73
Next	9,000 cu.ft. per 100 cu.ft. ..	.52
Over	12,000 cu.ft. per 100 cu.ft. ..	.284

Meter Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.85
3/4-inch meter .....	7.60
1-inch meter .....	11.90
1 1/2-inch meter .....	22.00
2-inch meter .....	32.00
3-inch meter .....	52.00
4-inch meter .....	73.00
6-inch meter .....	115.00
8-inch meter .....	157.00

The 67 unmetered flat rate Shasta Retreat area customers are billed \$2.50/month.

Applicant's initial proposal, which was mandated by the Hydraulic Branch, was a \$3.50 monthly charge for a 5/8 x 3/4-inch meter, with a commodity charge of 50¢ per 100 cu.ft. for the first 300 cu.ft. and 74¢ per 100 cu.ft. for all other use; Shasta Retreat customers would pay a \$7.50/month flat rate (approximating the average metered residential bill). Applicant has no separate commercial schedule and those customers are served under the metered service schedule.

Most of the correspondence we received was directed at the impact of the new rate design on fixed income residential customers, motels, and the City of Dunsmuir's recreation facilities (parks and a community plunge). At the hearing a spokesman for Cave Springs Motel

made a statement. He said the inverted rate proposal would be disastrous for motel operators because if they raised motel rates to pass on higher water costs, they would not be competitive with motels in a nearby community, Shasta City (which has cheaper water).

Cooke's Exhibit contained rate design alternatives. He recommended we adopt an equal percentage increase to the existing schedules, with the exception of Shasta Retreat. That was a proposal senior citizens groups in Dunsmuir told him would be most acceptable and cause the least economic harm. Cooke recommended that flat rate Shasta Retreat service should be \$7.50/month so these unlimited use customers make a realistic contribution to system costs. When the Shasta Retreat mains are replaced over the next 12 months, these customers will be metered, and the Flat Rate Schedule will be eliminated. Cooke said he knew his recommendation was a deviation from our general approach to water rate design, and he cited several reasons why it was warranted for this system:

1. Applicant has an abundant supply of spring water and a drastically new rate design for the system to maximize the economic incentive to conserve was not necessary from the supply standpoint, and since it is a gravity system, power for pumping would not be saved.
2. An inverted rate design would cause economic disruption to many of the retirees and fixed income residents, the City, and what little industry Dunsmuir has, with no material benefit.
3. While inverted rates are appropriate to conserve water and power where systems pump from the aquifer or where there are variable water treatment costs, exceptions should be made for mountainous gravity systems.

We strongly favor use-sensitive rates in view of the statewide need to conserve water and power. Here the system is at least metered, which is a big step in that direction compared to many small water systems.

It is apparent the community of Dunsmuir has become accustomed to the existing rate structure. Attached as Appendix A are some of the bill impact studies prepared by Cooke; they illustrate billing at present, proposed inverted, and equal percentage basis for a typical residential customer, one of the motels, and the City's pool facility.

Cooke points out that only about 6-8 commercial customers consume enough water to fall in the last two rate blockings: motels, the City, and Southern Pacific.

We are reluctant to change Applicant's rate structure given the demographics of Dunsmuir and community sentiment. As Cooke pointed out, water is not scarce and the system is metered. Also, aside from economic disruption on customers who have grown accustomed to the present rate structure, a major change in the structure may cause more revenue loss than we could anticipate, which is not financially healthy for a water utility of this size. However, the next time general rates are set for Applicant, we expect proposals for a separate commercial metered service schedule.

We will authorize an equal percentage increase of 24.3% for metered service, and a \$5.00/month flat rate for Shasta Retreat customers. Although \$5.00 does not as closely approximate the average monthly bill of the residential metered customer as we would like, pending completion of main replacement, service in that area is not as good as it could be. Since the Shasta Retreat improvements and metering should be completed in the next year, we will direct that Applicant's Flat Rate Service schedule be terminated 14 months after the effective date of of this order. As Shasta Retreat flat rate customers are metered, metered service rates shall apply.

Was the Hearing Adequately Noticed?

Notice of proposed general rate increases for water utilities is governed by Public Utilities (PU) Code § 454(a) and our Rules 24 and 52(2). § 454(a) requires individual customer notice that states "the amount of the proposed increase in dollar and percentage terms," and which tells customers how to contact the Commission to receive notice of the hearing date and location. Applicant delivered notices of its original rate increase proposal to all customers on October 26 and 27, 1981. After Applicant's draft advice letter was converted into an application, those who sent letters of protest or concern were mailed notice of the hearing date and location; likewise, they were notified of the change in location and Applicant published the ALJ's ruling changing the location in the local newspaper. The question, then, is whether the updating, or what was in essence an amendment to the application shortly before the scheduled hearing was properly noticed. The hearing was held on April 7. On April 1 Applicant mailed customers notice of the increased request, which included the date and location of the hearing.

Our Rule 52(2) sets the minimum time before a scheduled hearing that notice is to be given: 5 days. Staff raised the question of sufficient notice at the outset of our hearing. The ALJ stated there was indeed a question of whether adequate notice of the revised rate request was given, but as the parties were ready to proceed, the hearing continued.

The Applicant's revised showing largely stemmed from the delay in processing the initially proposed advice letter late last summer. Last minute changes to a rate request and notice create suspicion among customers. Here, it may seem to some customers, from the letters we received, that since the hearing was not held in Dunsmuir the potential for a much greater increase than originally proposed could result. We find § 454(a) was complied with; the issue is whether

customers received notice five days before the hearing as required by our Rule 52(2). Technically, since notice was mailed April 1, it is likely most customers received it five days before the hearing. But more importantly, we believe this proceeding was fairly noticed and those who intended to participate were afforded the opportunity to be heard; to hold further hearings would mean more expense to Applicant and, on balance, we think little would be gained. It was Applicant's initial proposed rate design which seemed to prompt most of the public outcry. Since we are adopting a rate design most acceptable to the community by increasing rates on an equal percentage basis (with the exception of the 67 flat rate Shasta Retreat area customers), we see no need for further hearings. Since there is a demonstrated need for increased revenues, the following order should be effective today.

Findings of Fact

1. Applicant has not been notified by the City of Dunsmuir that the City will no longer pay for hydrant maintenance.
2. Applicant's system is in need of plant improvements and replacement, which over the next year will cost \$142,868.
3. Exhibit 3 contained \$1,500 as a component of regulatory expense which was not explained or itemized in detail.
4. An 11.0% return on rate base is reasonable for this all-equity Class C water utility.
5. Based on the adopted results of operations, Applicant needs additional revenue of \$34,650 to have the opportunity to realize a 11.0% return on rate base.
6. The revenue requirement effect of ERTA for test year 1982 is \$1,100.
7. All but 67 of Applicant's customers are metered, and those 67 will be metered when the test year construction program is completed.
8. The existing \$2.50 flat rate charge is far below the average residential bill for metered customers; a \$5.00 charge for flat rate service more closely provides for these unlimited-use customers bearing a proportionate share of Applicant's revenue requirement.

9. A rate increase of 24.3% on all service, and a \$5.00/month charge for flat rate service, is justified.

Conclusions of Law

1. The rates in Appendix B are just and reasonable.
2. The hearing and application were lawfully noticed under PU Code § 454(a) and adequately noticed under our Rules of Practice and Procedure.

O R D E R

IT IS ORDERED that:

1. Dunsmuir Water Corporation (Dunsmuir) is authorized to file revised tariffs with the rates shown in Appendix B. The tariff filing shall comply with General Order 96-A. The revised rates shall be effective five days after filing and apply to service provided after they are effective.
2. Dunsmuir shall account for depreciation expense with the service lives set out in Appendix A of Exhibit 4.
3. Within 12 months after the effective date of this order, Dunsmuir shall complete the budgeted distribution plant improvements and install meters in the Shasta Retreat portion of its system. As individual customers are metered, Dunsmuir's Metered Service Schedule shall apply to them. Within 14 months after this order, Dunsmuir shall cancel its Flat Rate Service Schedule.

4. Within 30 days Dunsmuir shall publish the notice in Appendix D in the local newspaper.

5. This proceeding is submitted and concluded.

This order is effective today.

Dated JUN 2 1982, at San Francisco, California.

JOHN E. BRYSON

President

RICHARD D. GRAVELLE

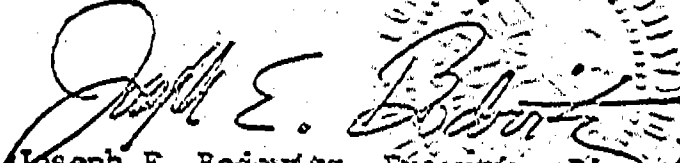
LEONARD M. GRIMES, JR.

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  
Page 1BILLING TO W. MASTERS  
Period: January to December 1981

Month	Quantity	I	II			III		IV	
		Original	Original Notice			Senior Citizens'		Applicant's New	
		Billing	Rates			Proposed Rates		Proposed Rates	
	Ccf	\$	\$	%	\$	%	\$	%	
January	12	\$ 8.96	\$ 11.66	+30.1%	\$ 10.75	20%	\$ 12.85	+43.4%	
February	10	7.50	10.18	35.7	9.00	20	10.75	43.3	
March	9	6.77	9.44	39.4	8.12	20	9.70	43.3	
April	9	6.77	9.44	39.4	8.12	20	9.70	43.3	
May	11	8.23	10.92	32.7	9.88	20	11.80	43.4	
June	10	7.50	10.18	35.7	9.00	20	10.75	43.3	
July	15	11.15	13.88	24.5	13.38	20	16.00	43.5	
August	10	7.50	10.18	35.7	9.00	20	10.75	43.3	
September	9	6.77	9.44	39.4	8.12	20	9.70	43.3	
October	11	8.23	10.92	32.7	9.88	20	11.80	43.4	
November	7	5.31	7.96	49.9	6.37	20	7.60	43.1	
December	7	5.31	7.96	49.9	6.37	20	7.60	43.1	
TOTAL YEAR		\$90.00	\$122.16	+35.7	\$107.99	20%	\$129.00	+43.3%	

APPENDIX A  
Page 2BILLING TO CAVE SPRINGS MOTEL  
Period: January to December 1981

Month	Ccf	I		II		III		IV	
		Original	Billing	Original	Notice	Senior Citizens'	Proposed Rates	Applicant's New	Proposed Rates
		\$	\$	\$	%	\$	%	\$	%
January	166	\$ 81.96	\$ 132.12	+61.2%		\$ 98.35	20%	\$ 118.11	+44.1%
February	174	84.23	138.04	63.9		101.03	20	121.39	44.1
March	138	74.01	111.40	50.5		88.81	20	106.63	44.1
April	150	77.42	120.28	55.4		92.90	20	111.55	44.1
May	382	143.31	291.96	103.7		171.97	20	206.67	44.2
June	401	148.70	306.02	105.8		178.44	20	214.46	44.2
July	952	305.19	713.76	133.9		366.23	20	440.37	44.3
August	1,347	417.36	1,006.06	141.1		500.83	20	602.32	44.3
September	1,351	418.50	1,009.02	141.1		502.20	20	603.96	44.3
October	927	298.03	695.26	133.2		357.70	20	430.12	44.3
November	286	116.04	220.92	90.4		139.25	20	167.31	44.2
December	187	87.92	147.66	67.9		105.50	20	126.72	44.1
TOTAL YEAR		\$2,252.72	\$4,892.50	117.2%		\$2,703.26	20%	\$3,249.61	+44.3%

APPENDIX A  
Page 3BILLING TO DUNSMUIR RECREATION DISTRICT Swimming Pool  
Period: January to December 1981

Month	Quantity	Ccf	I	II	III	IV
			Original Billing	Original Notice Rates	Senior Citizens' Proposed Rates	Applicant's New Proposed Rates
			\$	\$ %	\$ %	\$ %
January	0		\$ 32.00	\$ 10.00 -68.8%	\$ 38.40 20%	\$ 46.10 +44.1%
February	125		70.32	101.78 +44.7	84.38 20	101.30 44.1
March	0		32.00	10.00 -68.8	38.40 20	46.10 44.1
April	15		32.00	20.38 -36.3	38.40 20	46.10 44.1
May	295		118.60	227.58 +91.9	142.32 20	171.00 44.2
June	394		146.72	300.84 +105.0	176.06 20	211.59 44.2
July	367		139.05	280.86 +102.0	166.86 20	200.52 44.2
August	407		150.41	310.46 +106.4	180.49 20	216.92 44.2
September	378		142.17	289.00 +103.3	170.60 20	205.03 44.2
October	146		76.28	117.32 +53.8	91.54 20	109.91 44.1
November	435		158.36	331.18 +109.1	190.03 20	228.40 44.2
December	308		122.29	237.20 +94.0	146.75 20	176.33 44.2
TOTAL YEAR			\$1,220.20	\$2,236.60 +83.3%	\$1,464.23 20%	\$1,759.30 44.2%

(END OF APPENDIX A)

## APPENDIX B

Page 1

Schedule No. DU-1

Dunsmuir Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATESPer Meter  
Per Month

## Quantity Rates:

First	500 cu.ft. or less .....	\$ 4.85	(I)
Next	2,500 cu.ft., per 100 cu.ft. ....	.92	
Next	9,000 cu.ft., per 100 cu.ft. ....	.65	
Over	12,000 cu.ft., per 100 cu.ft. ....	.36	(I)

## Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 4.85	(I)
For	3/4-inch meter .....	9.50	
For	1-inch meter .....	15.00	
For	1 1/2-inch meter .....	27.00	
For	2-inch meter .....	40.00	
For	3-inch meter .....	65.00	
For	4-inch meter .....	91.00	
For	6-inch meter .....	143.00	
For	8-inch meter .....	195.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

SPECIAL CONDITION

All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

APPENDIX B

Page 2

Schedule No. 2RX

(C)

TEMPORARY RESIDENTIAL FLAT RATE SERVICE

(C)

APPLICABILITY

Applicable to existing Shasta Retreat flat rate residential water service, furnished on a monthly basis.

(T)

TERRITORY

Shasta Retreat and vicinity, City of Dunsmuir, Siskiyou County.

RATES

Per Service Connection  
Per Month

For a single-family residential unit, including premises .....

\$5.00

(I)

(D)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.

2. Meter service will be provided under Schedule No. DU-1 General Metered Service after August 1, 1983.

(C)

3. This schedule will be effective only to and including July 31, 1983 and will thereafter be withdrawn.

(C)

(D)

APPENDIX B

Page 3

Schedule No. DU-4

Dunsmuir Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATES

	<u>Per Month</u>	
For 3-inch service, or smaller .....	\$ 4.35	(I)
For 4-inch service .....	6.70	
For 6-inch service .....	16.70	
For 8-inch service .....	26.80	
For 10-inch service .....	41.20	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility, and the cost paid by the applicant. Such payment shall not be subject to refund.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by applicant. Such payment shall not be subject to refund.

APPENDIX B

Page 4

SPECIAL CONDITIONS - continued

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector-type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water, and the cost paid by the applicant. Such payment shall not be subject to refund.

4. The utility 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.

5. All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

(END OF APPENDIX B)

APPENDIX C  
Page 1

ADOPTED QUANTITIES

Company: Dunsmuir Water System

1982

1. Water Production:

Springs

636,300 Ccf

2. Electric Power:

Supplier: PP&L Dated: 5/24/81

kWh

46,315

Cost

\$2,390

Cost per kWh

\$ 0.05160/kWh

3. Ad Valorem Taxes:

\$3,990

Tax Rate

1.2020%

4. Net-to-Gross Multiplier:

1.36567

5. Metered Water Sales Used to Design Rates:

Usage-Ccf  
1982

Blocks: 0 - 5  
5 - 30  
30 - 120  
Over - 120

53,302  
69,811  
26,720  
20,355

170,188



APPENDIX C  
Page 2

ADOPTED QUANTITIES

Company: Dunsmuir Water System

6. Number of Services:

	<u>No. of Service</u>	<u>1982 Usage Ccf</u>	<u>Avg. Usage Ccf/Year</u>
Commercial Metered	1,084	170,188	157.00
Residential Flat Rate	67		
Private Fire Protection	4		
Total	1,155		

7. Number of Services (by meter size)

<u>Meter Size</u>	<u>1982</u>
5/8" x 3/4"	1,034 Services
3/4"	1
1"	19
1 1/2"	12
2"	16
4"	2
Total	1,084

APPENDIX C  
Page 3

## DUNSMUIR WATER SYSTEM

INCOME TAX CALCULATION  
1982

Item	Present Rates (A)	Proposed Rates (B)
<u>State Franchise Tax</u>		
Operating Revenue	\$141,534	\$176,200
<u>Expenses</u>		
Operating Expenses	103,040	103,040
Taxes Other Than Income	8,810	8,810
Interest	-	-
Subtotal Deductions	\$111,850	\$111,850
State Tax Depreciation	\$ 16,600	\$ 16,600
Net Taxable Revenue	13,174	47,750
CCFT at 9.6%	1,265	4,580
<u>Federal Income Tax</u>		
Operating Revenue	\$141,534	\$176,200
Expenses	111,850	111,850
FIT Depreciation	16,600	16,600
CCFT	1,265	4,580
Taxable Income	\$ 11,909	\$ 43,170
Federal Income Tax - 1st 25,000 at 16%	\$ 1,905	\$ 4,000
2nd 25,000 at 19%	-	3,450
FIT	\$ 1,905	\$ 7,450

(END OF APPENDIX C)

APPENDIX D

N O T I C E

\$1,100 of the recent rate increase granted to Dunsmuir Water Corporation was made necessary by changes in tax laws proposed by the President and passed by Congress last year. This was the Economic Recovery Tax Act of 1981. Among its provisions was a requirement that utility ratepayers be charged for certain corporate taxes even though the utility does not have to pay them. This results from the way utilities may treat tax savings from depreciation on their plant and equipment. The savings can no longer be credited to the ratepayer, but must be left with the company and its shareholders.

For a more detailed explanation of this tax change, send a stamped self-addressed envelope to:

Consumer Affairs Branch  
Public Utilities Commission  
350 McAllister Street  
San Francisco, CA 94102

(END OF APPENDIX D)

ORIGINAL

Decision 82 06 018 JUN 2 - 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the DUNSMUIR WATER )  
CORPORATION, Dunsmuir District, )  
to increase rates. The revenue )  
increase proposed is 20%; inverted )  
residential rates are proposed. )

Application 61150  
(Filed December 24, 1981)

William Heilman and Willis Thompson, for applicant.  
Patricia Bennett, Attorney at Law, and Edward Cooke,  
for the Commission staff.

O P I N I O NBackground

Dunsmuir Water Corporation (Applicant) serves two areas: the City of Dunsmuir and contiguous territory (about 1,071 customers) and Fort Jones (250 customers). This application involves the City of Dunsmuir territory. Applicant is controlled and operated by Willis Thompson, who acquired control of the system in 1979. He is also a trenching contractor operating in the vicinities around Dunsmuir.

The community of Dunsmuir, near Mount Shasta, once centered around Southern Pacific's rail operations in the era of steam-powered railroading as a coal and watering stop. Now, although Southern Pacific still has facilities in Dunsmuir, Applicant and staff characterize the community as largely centered around retirees and the tourist industry (e.g. motels).

Shortly before Thompson acquired the system, its predecessor took over a water system serving about 70 customers near the edge of Dunsmuir called Shasta Retreat. That system was in shambles, ~~both~~ <sup>neither</sup> ~~from the standpoint of not~~ having a safe or healthy water supply and ~~not having~~ adequate distribution facilities. By Decision (D.) 89867 in

Case 8936, et al., issued January 16, 1979, we directed a five-year program of improvements and allowed the filing of rate base offset advice letters once annually as an inducement to encourage the needed overall upgrading of the Shasta Retreat portion of the system.

Applicant's water supply is from springs and, with the exception of a couple of booster pumps, it is a gravity system. The water is untreated. The community boasts of its water quality; we note the City of Dunsmuir's official stationery states "Home of the Best Water on Earth."

#### Summary

88 This decision finds Applicant in need of \$34,650 additional revenue to allow it the opportunity to earn ~~an~~ 11.0% rate of return; this is a 24.5% increase in revenues. Existing rates are increased by 24.3%, with the exception of unmetered flat rate service which is increased from \$2.50/month to \$5.00. Applicant's service is satisfactory and its proposed construction program to replace old mains and upgrade the Shasta Retreat portion of the system is reasonable. Applicant is seeking a low interest loan for about \$691,000 from the State Department of Water Resources to replace its collection-storage tank. Those repairs and the loan were not addressed in this proceeding, but will be the subject of a subsequent application.

#### Procedural History

Last fall Applicant submitted a draft advice letter to our Hydraulic Branch, as, ordinarily, rate matters of this type are handled by an advice letter filing. Applicant, as directed by staff, noticed all customers of the draft advice letter, which proposed a 20% increase in gross revenues and a service charge-inverted rate design. Applicant proposed the new rate design because it was told by staff that only that rate design would comport with Commission policy. About 20 letters of protest were received. Community groups and customers asked for a hearing. The draft advice letter was converted into an application.

Adopted Results of Operations

No other results of operations issues require discussion. The following table summarizes the test year results of operations showing of Applicant, staff, and our adopted results of operations.

Based on our adopted results of operations, Applicant needs a rate increase of \$34,650 to produce an 11.0% return on rate base. This is a revenue increase of 24.5%. The adopted reserve for federal income taxes was calculated as required by the 1981 Economic Recovery Tax Act (ERTA). The effect of ERTA on Applicant's revenue requirement is approximately \$1,100. We have been directing water utilities to send bill insert notice to customers on the effect of ERTA on their rates. However, since Applicant uses a postcard billing, and the local newspaper is widely read in Dunsmuir, in this instance we will direct newspaper publication of the notice, which is Appendix D to this decision.

Staff noted that Applicant is not booking depreciation as required by our standards for Class C water utilities. Appendix A to staff's Exhibit 4 sets out proper depreciation rates. Applicant accepted staff's depreciation reserve. We will direct Applicant to revise its depreciation accounting as recommended by staff.