

Decision S2 11 042

NOV 3 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)
Borrego Springs Water Company for)
authority to increase its rates for)
water service.)

Application 82-03-01
(Filed March 1, 1982)

Linden R. Burzell, for applicant.
Edw. Duncan, for himself, interested
party.
Albert A. Arellano, Jr., for the
Commission staff.

O P I N I O N

Summary

This decision authorizes increased revenues of \$92,625 (32.4%) for the next year 1982. Such an increase will provide a 13.0% rate of return on our adopted rate base of \$293,640. ✓

Borrego Springs Water Company (BSWC) seeks authority to increase its metered rates for water service approximately \$189,300 (66.8%) annually.

BSWC, a California corporation, renders public utility water service to a portion of the desert community of Borrego Springs, which is located in the northeastern portion of San Diego County. BSWC's water supply is obtained from four wells, each equipped with an electric pump ranging in size from 50 to 150 horsepower. In addition, there are two 210,000-gallon and one 60,000-gallon storage tanks located at the 900-foot elevation level. As of year end 1981, BSWC had approximately 807 connected metered water services.

After due notice, public hearing was held before Administrative Law Judge N. R. Johnson in Los Angeles on July 7, 1982, and the matter was submitted upon receipt of late-filed Exhibit 3 due July 12, 1982. Testimony was presented on behalf of BSWC by its secretary and consulting engineer Linden R. Burzell and on behalf of the Commission staff by associate utilities engineer Victor Moon.

Rates

The following tabulation sets forth the applicant's present and proposed general metered service rates, both including and excluding the surcharge for repayment of the California Safe Drinking Water Bond Act loan:

	<u>Excluding Surcharge</u>		<u>Including Surcharge</u>	
	<u>Per Meter</u>	<u>Per Month</u>	<u>Per Meter</u>	<u>Per Month</u>
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
Quantity Rates:				
First 300 cu.ft., per 100 cu.ft.	\$.441	\$.560	\$.441	\$.560
Over 300 cu.ft., per 100 cu.ft.	.569	.910	.569	.910
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 2.50	\$ 7.90	\$ 4.60	\$10.00
For 3/4-inch meter	2.75	12.65	5.10	15.00
For 1-inch meter	3.75	16.85	6.90	20.00
For 1 1/2-inch meter	5.00	20.80	9.20	25.00
For 2-inch meter	6.75	25.30	12.45	31.00
For 3-inch meter	12.50	29.25	23.00	39.75
For 4-inch meter	17.00	33.20	31.30	47.50

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates, for water used during the month.

BSWC's proposed rate design is intended to raise 22% of the total revenues from the service charge as compared to the present rates wherein the present service charge provides approximately 10.6% of the total revenue.

According to the testimony of BSWC's witness, the justification for this level of service charge is that it is necessary to maintain and operate the entire water system in full readiness to serve 24 hours per day, 365 days a year, even if no water is consumed, at a cost in excess of \$200,000 per year. Inasmuch as the proposed rate structure provides only approximately one-half of the total readiness-to-serve costs, it is fully justified. This witness further stated that he believed its proposed rates conform to this Commission's "model" rate structure which calls for:

- a. A service charge as contrasted to a minimum charge.
- b. A lifeline allowance of 300 cubic feet per month.
- c. A second block inverted rate which is not more than 50% higher than the first block.

The staff witness testified that he concurred with BSWC's proposal to apply a larger increase to the service charge and that the adopted rate structure should conform to the above-described "model" rate structure.

We note that BSWC serves a predominately second-home community of parttime residents. These residents have relatively low consumption but the fixed costs associated with making the service available to them remain high. We therefore conclude that BSWC's proposal to increase the service charge to provide approximately 22% of the 1982 test year adopted revenues is reasonable. This rate design will create a more equitable distribution of costs by causing parttime residents to bear more of the fixed costs of service without charging fulltime residents excessively high quantity charges.

Results of Operations

Both BSWC and staff presented results of operations reports for the test year 1982. The following tabulation compares the 1982 test year estimates prepared by BSWC and staff, together with the adopted estimates at present and authorized rates. The bases for the adopted results are discussed in the ensuing paragraphs.

<u>Item</u>	Estimated Year 1982 At Present Rates			Authorized Rates
	<u>Staff</u>	<u>BSWC</u>	<u>Adopted</u>	
Operating Revenues	\$302,880	\$283,491 ^{a/}	\$285,765	\$378,390
<u>Operating Expenses</u>				
Purchased Power	108,240	155,000	127,255	127,255
Balancing Account				
Amortization	48,100	0	48,100	48,100
Payroll	54,300	56,000	57,200	57,200
Office Expense	12,200	12,200	12,200	12,200
Repairs and Maint.	16,400	16,400	16,400	16,400
Insurance	6,600	6,600	6,600	6,600
Other Oper. Expenses	35,225	61,725	35,225	35,225
Depreciation	24,724	24,379	24,724	24,724
Taxes Other Than Income	9,200	5,532	9,200	9,200
Income Taxes	200	0	200	3,316
Total Oper. Exp.	315,189	337,836	337,104	340,220
Net Operating Rev.	(12,309)	(54,345)	(51,339)	38,170
Depreciated Rate Base	293,640	576,310	293,640	293,640
Rate of Return	(Loss)	(Loss)	(Loss)	13.0%

(Red Figure)

^{a/} Includes \$23,314 surcharge for repayment of Safe Drinking Water Bond Act loan.

It will be noted that the major differences in the estimated summary of earnings is the estimated operating revenues and the following expenses: purchased power, balancing account amortization, payroll, taxes-other than income, and other operating expenses, and in the depreciated rate base amounts. These items will be discussed separately.

Operating Revenues

BSWC and staff estimates differed in both the Ccf per customer and the number of customers. BSWC's estimate reflected 787 customers for test year 1982 as contrasted to the staff's estimate of 814 customers for the 1982 test year. As of December 31, 1981, BSWC was serving 807 customers fully supporting the staff's estimate of 814 customers for test year 1982 which we will adopt as reasonable.

BSWC used 526 Ccf per customer as contrasted to 600 Ccf per customer used by staff. According to the record, the staff's estimate was based on a least squares statistical projection of recorded data for the years 1977 through 1981 whereas BSWC's estimate approximated recorded data for the year 1980. BSWC's witness testified that he believed 1981 recorded data should not be used because 1981 was an unusually hot and dry year causing excessive water use. In support of this position he noted that the water use for the first four months of 1982 was 14% less than the water use for the first four months of 1981. A least squares projection based on recorded data for the years 1976 through 1982 yields an average consumption of 562.6 Ccf per customer, which approximates very closely the 564 Ccf per customer we adopted as reasonable in BSWC's last general rate case in 1976. Consequently, we will adopt the 562.6 Ccf so

derived for the 1982 test year. Applying this 562.6 Ccf per customer to our adopted 814 number of customers yields sales of 457,956 Ccf for the test year 1982. Applying these sales to the average of the revenue per Ccf developed by BSWC and staff of \$.624 yields our adopted 1982 test year operating revenues at present rates of \$285,765.

Purchased Power

BSWC's 1982 test year purchased power expense of \$155,000 reflects the consumption of 1,311,265 kilowatt-hours (kWh) of electric energy billed on a tariff schedule effective July 23, 1981 as contrasted to the staff's estimate of \$108,240 reflecting 984,118 kWhs of electric consumption billed on a tariff schedule effective January 1, 1982. The difference in the two electric rate schedules is .00822 cents per kWh and obviously accounts for only a very minor portion of the \$46,760 difference in the estimates. Both BSWC and staff advocate the use of the electric rate in effect at the time the decision issues. This position is reasonable and will be adopted.

BSWC's estimate of the kWhs necessary for pumping water for test year 1982 is the same as the year 1980 recorded expense. BSWC's witness notes that the 1981 recorded power consumption was 1,566,466 kWhs fully justifying, in his opinion, the use of the 1980 recorded figure. The staff witness testified that he based his estimate on a 15% level of losses which he believes reasonable and not on recorded data reflecting an overall efficiency of from 54% to 56.6%, which he believes reflects excessive losses that should not be permitted for ratemaking purposes. According to BSWC witness' testimony,

the high losses are completely justifiable and consist of 10% to 12% necessary to maintain pump pressure on an all-day basis, approximately 4% for flushing sand out of the water, from 6% to 8% loss of water from deteriorated, 38-year old pipes, 2% for flushing fire hydrants, 4% spillage, 8%-10% meter slippage, and from 2% to 3% unmetered water for the irrigation of palm trees. In our opinion, the above-described losses, except for the approximately 7% leakage in the 38-year old pipes, the 4% spillage, and the approximately 9% meter slippage, appear reasonable and will be allowed for ratemaking purposes. The total of these three disallowed losses is 20% to be deducted from the total kWhs of electrical energy required for pumping water. It should be noted that this loss factor of 20% relates to electrical power losses associated with the pumping of water and not the customary loss figure which relates to lost and/or unaccounted volumes of water.

As previously described, we have adopted as reasonable 457,956 Ccf water consumption for test year 1982. Applying BSWC's historical relationship of 3.16 kWhs per Ccf of water pumped yields a purchased power consumption of 1,447,142 kWhs for that year. From this figure should be deducted the 20% discounted loss factor previously discussed to yield the adopted purchased power electrical consumption of 1,157,714 kWhs. At the currently effective rate of \$20 per month per well service charge plus \$.10919 per kWh quantity charge, the purchased power cost for 1,157,714 kWhs used by BSWC's four wells equals \$127,255, which we adopt as reasonable.

Balancing Account Amortization

According to the testimony of the staff witness, the balancing account for purchased power was underaccrued by approximately \$60,000 for the calendar year 1980, and as of December 31, 1981 the balancing account was underaccrued by \$96,253. He recommends that because of the magnitude of

✓

the underaccrual, it be amortized at a rate of \$48,100 a year for two years. This recommendation appears reasonable and will be adopted. However, we take note of the fact that the \$48,100 represents approximately 52% of the \$92,625 increase in annual revenues being authorized by this decision. Further, the magnitude of this underaccrual extends far beyond the usual balancing account adjustment. Thus, we will provide that rates be reduced at the end of the two-year amortization period as indicated in Appendix A. The utility is cautioned that future under- or overaccruals of such a magnitude should be avoided by the timely filing of a purchased power offset advice letter.

Payroll Expense

According to the record, BSWC's estimate of \$56,000 payroll expense reflects a 25% increase over the 1980 payroll expense whereas the staff engineer's estimate of \$54,300 reflects annual inflation factors of 10.4% for the year 1981 and 9.8% for test year 1982. The recorded six months payroll expense for January 1, 1982 through June 30, 1982 was \$28,622. Since the test year is nearly over and since it appears that both staff and utility estimates were low, we will adopt \$57,200 as reasonable for test year 1982.

Other Operating Expenses

BSWC's estimate of other operating expenses is \$61,725 as contrasted to the staff's estimate of \$35,225. The \$26,500 difference is interest charges paid by BSWC. According to the testimony, BSWC believes that the interest charge should be allowed to the extent that borrowed funds are required to carry the balancing account which accumulated due to power rate increases allowed the San Diego Gas & Electric Company that were not offset by adequate water rate increases. The staff engineer testified that such an interest amount was considered in the computation of the income taxes and, therefore, should not be allowed in the operating expenses. The \$26,500 interest expense was also included in the computation of the subsequently discussed debt cost of 13.5%. Therefore, the staff position is consistent with our normal practice and will be adopted.

Depreciation Expense

The difference in depreciation expense estimates of BSWC of \$24,379 and staff of \$24,724 is due to the availability of later information by staff. Consequently, the staff estimate will be adopted.

Taxes Other Than Income

According to the record, BSWC inadvertently included no amount for payroll taxes in its estimate of Taxes Other Than Income. Consequently, the staff estimate of \$9,200 will be adopted.

Income Tax

Both BSWC and staff estimates indicate that at present rates the 1982 test year operations experience a loss. Similarly the adopted results also indicate that at present rates BSWC will experience a loss for the year 1982. Consequently, the only income tax would be the minimum \$200 amount for the California State Franchise Tax. In accordance with the dictates of the Economic Recovery Act (ERTA) of 1981, and Decision (D.) 93848 dated December 15, 1981 in our Order Instituting Investigation 24 into the method to be used by the Commission to establish the proper level of income tax expense for ratemaking purposes, the income tax expense is computed with normalization of Accelerated Cost Recovery. The incremental effect of ERTA on revenue requirement is an increase of \$480.

Depreciated Rate Base

BSWC's 1982 test year estimate for depreciated rate base is \$576,310 as contrasted to the staff's estimate of \$293,640. The following tabulation summarizes the component parts of these two estimates, together with the amount by which the BSWC estimate exceeds the staff estimate:

Estimated Year 1982

Item	BSWC	Staff	BSWC Exceeds Staff
Average Adjusted Utility Plant	\$ 998,830	\$ 710,870	\$287,960
Adj. Depreciation Reserve	(393,520)	(387,100)	(6,420)
Materials and Supplies	6,000	5,000	1,000
Working Cash	45,000	44,260	740
Advances	(45,000)	(29,080)	(15,920)
Contributions	(35,000)	(47,910)	12,910
Average Adjusted Depreciated Rate Base	576,310	296,040	280,270
Reserve for Deferred Income Tax:			
Tax Depreciation	0	(820)	820
Investment Credit	0	(1,580)	1,580
Adjusted Rate Base	576,310	293,640	282,670

(Red Figure)

The difference between BSWC and staff estimates of utility plant is due to the exclusion by staff of the Safe Drinking Water Bond Act loan improvement as ordered by D.88535 dated March 7, 1978 and the availability of later recorded information. The staff estimate is in accordance with our past practices and decisions and will be adopted. The difference in estimates of depreciation reserve, contributions in aid of construction, retirements, and advances for construction reflects later information available to staff. Consequently, the staff estimates will be adopted. The staff estimate of working cash allowance of \$44,260 was, according to the testimony of the staff witness, developed in accordance with the simplified method as described in the Utilities Division's Standard Practice U-16 and will be adopted. The staff engineer reduced the rate base by the estimated Reserve for Deferred Income Tax and Investment Credit resulting from the use of normalization of Accelerated Cost Recovery. This adjustment will be adopted as reasonable.

Rate of Return

For the test year 1982, BSWC requests a 13.0% rate of return on its rate base. Staff's Revenue Requirements Division has reviewed BSWC's finances and has concluded that a 13.0% rate of return is not unreasonable. This conclusion is based on using a capital structure of 60% debt and 40% equity, a debt cost estimated at 13.5%, and an equity cost at 12.25%. We concur that BSWC's request is reasonable. The rates authorized by this decision will reflect a 13.0% rate of return for the 1982 test year on our adopted rate base of \$293,640, or a net return of \$38,170. A gross revenue increase of \$92,625 (32.4%) is required to provide such a net increase in revenue. ✓

Service

According to the testimony of the staff witness, the service provided by BSWC is satisfactory and there are no outstanding Commission orders requiring system improvements.

Findings of Fact

1. BSWC is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The adopted estimates previously discussed of operating revenues, operating expenses, and rate base for the test year 1982 reasonably indicate the results of BSWC's operations in the near future.
3. A rate of return of 13.0% on the adopted rate base of \$293,640 is reasonable.
4. The increases in rates and charges authorized are reasonable and the present rates and charges, insofar as they differ from those prescribed, are for the future unjust and unreasonable.
5. The authorized increase in rates at the 13.0% rate of return for the test year 1982 is expected to provide increased revenues of approximately \$92,625 (32.4%) for BSWC's general metered service, compared to a requested increase of \$189,300 (66.8%).
6. When the underaccrual of \$96,253 in the purchased power balancing account is amortized, rates should be reduced accordingly.
7. The quality of service rendered by BSWC is adequate.

Conclusion of Law

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

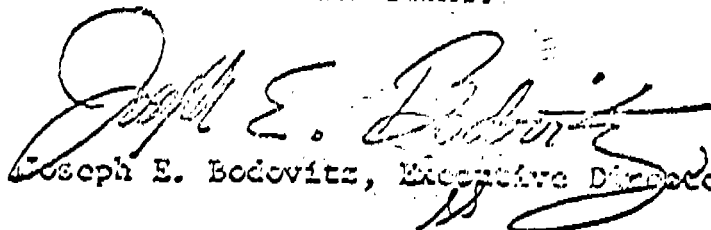
IT IS ORDERED that after the effective date of this order, Borrego Springs Water Company is authorized to file the revised rate schedule attached to this order as Appendix A, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after that effective date. ✓

This order becomes effective 30 days from today.

Dated November 3, 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

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Borrego Valley and vicinity, San Diego County.

RATES

		<u>Per Meter Per Month</u>	
		<u>Charge</u>	<u>Surcharge</u>
Service Charge:			
For 5/8 x 3/4-inch meter		\$ 7.30 (I)	\$ 2.10
For 3/4-inch meter		8.00	2.35
For 1-inch meter		11.00	3.15
For 1 1/4-inch meter		15.00	4.20
For 2-inch meter		20.00	5.70
For 3-inch meter		37.00	10.50
For 4-inch meter		50.00 (I)	14.30

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates, for water used during the month.

Quantity Rates:

		<u>Per Meter Per Month</u>	
		<u>Prior to</u>	<u>Effective</u>
		<u>10-1-84</u>	<u>10-1-84</u>
First 300 cu.ft., per 100 cu.ft.		\$.520 ^{a/} (I)	\$.415 (N)
Over 300 cu.ft., per 100 cu.ft.652 ^{a/} (I)	.547 (N)

a/ These rates include amortization factor of \$.105 per Ccf for purchased power to amortize undercollections of \$96,200 over 24 months

(N)

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan authorized by Decision 92116.

SPECIAL CONDITION

Consumers requiring water in quantities amounting to over 8,000 cubic feet in any calendar month, may be required to take water during off-peak hours for uses such as irrigating golf links, municipal parks, and for filling swimming pools.

(END OF APPENDIX A)

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the high losses are completely justifiable and consist of 10% to 12% necessary to maintain pump pressure on an all-day basis, approximately 4% for flushing sand out of the water, from 6% to 8% loss of water from deteriorated, 38-year old pipes, 2% for flushing fire hydrants, 4% spillage, 8%-10% meter slippage, and from 2% to 3% unmetered water for the irrigation of palm trees. In our opinion, the above-described losses, except for the approximately 7% leakage in the 38-year old pipes, the 4% spillage, and the approximately 9% meter slippage, appear reasonable and will be allowed for ratemaking purposes. The total of these three disallowed losses is 20% to be deducted from the total kWhs of electrical energy required for pumping water. It should be noted that this loss factor of 20% relates to electrical power losses associated with the pumping of water and not the customary loss figure which relates to lost and/or unaccounted volumes of water.

As previously described, we have adopted as reasonable 457,956 Ccf water consumption for test year 1982. Applying BSWC's historical relationship of 3.16 kWhs per Ccf of water pumped yields a purchased power consumption of 1,447,142 kWhs for that year. From this figure should be deducted the 20% discounted loss factor previously discussed to yield the adopted purchased power electrical consumption of 1,157,714 kWhs. At the currently effective rate of \$20 per month per well service charge plus \$.10919 per kWh quantity charge, the purchased power cost for 1,157,714 kWhs used by BSWC's four wells equals \$127,255, which we adopt as reasonable.

Balancing Account Amortization

According to the testimony of the staff witness, the balancing account for purchased power was underaccrued by approximately \$60,000 for the calendar year 1980, and that as of December 31, 1981 the balancing account was underaccrued by \$96,253. He recommends that because of the magnitude of

the underaccrual, it be amortized at a rate of \$48,100 a year for two years. This recommendation appears reasonable and will be adopted. However, we take note of the fact that the \$48,100 represents approximately 52% of the \$92,650 increase in annual revenues being authorized by this decision. Further, the magnitude of this underaccrual extends far beyond the usual balancing account adjustment. Thus, we will provide that rates be reduced at the end of the two-year amortization period as indicated in Appendix A. The utility is cautioned that future under- or overaccruals of such a magnitude should be avoided by the timely filing of a purchased power offset advice letter.

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The difference between BSWC and staff estimates of utility plant is due to the exclusion by staff of the Safe Drinking Water Bond Act loan improvement as ordered by D.88535 dated March 7, 1978 and the availability of later recorded information. The staff estimate is in accordance with our past practices and decisions and will be adopted. The difference in estimates of depreciation reserve, contributions in aid of construction, retirements, and advances for construction reflects later information available to staff. Consequently, the staff estimates will be adopted. The staff estimate of working cash allowance of \$44,260 was, according to the testimony of the staff witness, developed in accordance with the simplified method as described in the Utilities Division's Standard Practice U-16 and will be adopted. The staff engineer reduced the rate base by the estimated Reserve for Deferred Income Tax and Investment Credit resulting from the use of normalization of Accelerated Cost Recovery. This adjustment will be adopted as reasonable.

Rate of Return

SS For the test year 1982, BSWC requests a 13.0% rate of return on its rate base. Staff's Revenue Requirements Division has reviewed BSWC's finances and has concluded that a 13.0% rate of return is not unreasonable. This conclusion is based on using a capital structure of 60% debt and 40% equity, a debt cost estimated at 13.5%, and an equity cost at 12.25%. We concur that BSWC's request is ~~not unreasonable~~. The rates authorized by this decision will reflect a 13.0% rate of return for the 1982 test year on our adopted rate base of \$293,640, or a net return of \$38,170. A gross revenue increase of \$92,625 (32.4%) is required to provide such a net increase in revenue.

O R D E R

IT IS ORDERED that:

~~I~~ After the effective date of this order, Borrego Springs Water Company (BSWC) is authorized to file the revised rate schedule attached to this order as Appendix A, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after that effective date. 15

~~2 Within 45 days BSWC shall send the bill insert attached in Appendix B to all its water customers.~~ 15

This order becomes effective 30 days from today.

Dated NOV 3 1982, at San Francisco,
California.

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