

Decision No. 89115 JUL 25 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 DEL ORO WATER COMPANY, INC., a corpo-)
 ration, for authority to increase)
 rates for water service. }

Application No. 57293
 (Filed May 10, 1977)

Craig Z. Randall, Attorney at Law, for
 Del Oro Water Company, applicant.
H. C. Ashley and W. J. Matson, for Upper
 Ridge Council; L. J. Hubbard, for
 Paradise Pines P.O.A.; interested parties.
Cleo D. Allen, for the Commission staff.

O P I N I O N

Del Oro Water Company, Inc., a California corporation, seeks authority to increase water rates by \$49,612 for test year 1978 and by an additional \$18,106 for test year 1979 over present rates.

Applicant provides domestic water service to approximately 1,400 customers in the Paradise Pines, Sierra Del Oro, and Fir Haven Subdivisions and adjoining unsubdivided areas located approximately four miles north of Paradise, Butte County, California. Applicant obtains its water supply from five wells, has usable distribution storage of 1,200,000 gallons, and a distribution system consisting of approximately 124,000 feet of steel pipe and 181,000 feet of plastic pipe ranging in size from 3 inches to 12 inches.

Applicant initially requested a rate increase by advice letter filing dated June 18, 1976; however, due to customer objections, the Commission staff instructed applicant to file an application for the requested rate increase.

Public hearings were held before Administrative Law Judge Tomita on January 3 and 4, 1978 in Magalia. The matter was submitted subject to receipt of late-filed Exhibits 12, 13, 15, 17, 18, and 19, the last of which, Exhibit 18, was received on March 28, 1978.

Testimony on behalf of applicant was presented by Mr. Robert S. Fortino, manager, and Mr. Enzo Franceschi, CPA, accountant for applicant. Mr. Cleo D. Allen, an associate utilities engineer, testified for the Commission staff.

Approximately 150 customers were in attendance on the first day of hearings. Seven customers testified questioning the need for the rate increase and also the fact that they were promised unlimited water service at a flat rate of \$7 a month by the developer. Although there were strong objections to the rate increase, there was no criticism as to the quality of water or level of service offered by applicant. In addition, two customer groups, the Upper Ridge Council and the Paradise Property Owners Association, actively participated in the proceeding through cross-examination of applicant and staff witnesses.

Applicant has had no rate increase since rates were initially established in 1965, although many of the customers considered the metering of the system tantamount to a rate increase. Applicant's witnesses testified that the rate increase was necessary because the large losses incurred in recent years have depleted applicant's capital to such an extent that unless some rate relief is granted the viability of the utility to continue service will be jeopardized.

Results of Operations

The following tabulation compares the estimated Summary of Earnings for test years 1978 and 1979 at present and proposed rates as estimated by applicant and staff.

SUMMARY OF EARNINGS

Estimated Years 1978 and 1979

<u>Item</u>	<u>Applicant</u>		<u>Staff</u>		<u>Applicant Exceeds Staff</u>	
	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>Present</u>	<u>Proposed</u>
	<u>1978</u>					
Operating Revenue		\$192,132	\$153,400	\$199,400		\$(7,268)
<u>Operating Expenses</u>						
Operation & Maintenance		144,162	124,460	124,460		19,702
Taxes Other Than Income		21,033	18,000	18,000		3,033
Depreciation		24,998	29,233	29,233		(4,235)
Income Taxes		200	200	7,830		(7,630)
Total Expenses		<u>190,393</u>	<u>171,893</u>	<u>179,523</u>		<u>10,870</u>
Net Operating Revenue		1,739	(18,493)	19,877		(18,138)
Depreciated Rate Base		153,964 ^{a/}	131,121	131,121		22,843
Rate of Return		1.13%	(14.10)%	15.16%		(13.99)%
Avg. Commercial Customers		1,620		1,700		(80)
	<u>1979</u>					
Operating Revenue		\$231,230	\$163,900	\$237,500		\$(6,270)
<u>Operating Expenses</u>						
Operation & Maintenance		167,876	129,360	129,360		38,516
Taxes Other Than Income		22,862	18,000	18,000		4,862
Depreciation		26,526	31,993	31,993		(5,467)
Income Taxes		3,572	200	23,750		(20,178)
Total Expenses		<u>220,836</u>	<u>179,553</u>	<u>203,103</u>		<u>17,733</u>
Net Operating Revenue		10,394	(15,653)	34,397		(24,005)
Depreciated Rate Base		180,869 ^{a/}	147,404	147,404		33,465
Rate of Return		5.75%	(10.62)%	23.34%		(17.59)%
Avg. Commercial Customers		1,797		1,820		(23)

(Red Figure)

^{a/} Applicant's end of year rate base recomputed to average year rate base.

Applicant updated its showing at the hearings by introducing Exhibits 2 through 9 using 11-month recorded figures for 1977 annualized to arrive at estimated 1977 figures and subsequently trended such figures in arriving at 1978 and 1979 estimated figures. Staff Exhibit 16 was based on recorded year 1976 data which failed to take into consideration the substantial growth experienced in 1977. The administrative law judge requested the staff to submit a late-filed results of operations report based upon 1977 information for test years 1978 and 1979 in order that staff figures would be comparable with applicant's figures.

The staff estimates of operating revenues exceeded applicant's estimates mainly due to the higher estimates of customers used by the staff for test years 1978 and 1979. The staff estimates of operating expenses were lower than applicant's because the staff used the latest known actual salaries and wage levels and also adjusted some of the salaries considered to be excessive for a utility of this size; purchased power for pumping was modified to exclude the cost of pumping water delivered to Paradise Irrigation District which was considered to be a nonrecurring expense; and materials, services, and miscellaneous expenses were based upon recorded expenses. Applicant, on the other hand, based its expense estimates on a 13.54 percent customer load increase plus a 5.5 percent cost of living factor increase for 1978 and a 10.95 percent customer load increase plus a 5.5 percent cost of living factor for 1979. Staff estimates for taxes other than income taxes were lower than applicant's because staff used currently known tax rates, lower payroll and lower plant investment figures. On the other hand, staff estimates of income taxes were higher than applicant's because the staff estimates produced higher net operating revenues.

Staff estimates of rate base for test years 1978 and 1979 were based upon an average of actual increases recorded in plant, contributions, and advances for construction experienced in prior years. Applicant's estimates were based upon its projection as to its proposed additions to plant for the two test years.

Based upon staff estimates the proposed rates for 1978 would produce a rate of return of 15.16 percent compared to a 1.17 percent service.

Adopted Results of Operation

For the purposes of this proceeding we will adopt the staff revenue and operations and maintenance expense estimates as the reasonable test year figures for 1978 and 1979. We will use the staff figures for taxes other than income modified for applicant's higher plant investment figure as the reasonable taxes other than income figure. We will adopt applicant's depreciation figure since we are adopting applicant's estimate of test year utility plant investment. Income taxes and working cash for rate base purposes are recomputed to reflect the adopted figures. The adopted results are shown in Table 1.

TABLE I

Adopted Results of Operations

	<u>Proposed Rates</u>		<u>10% Rate of Return</u>
	<u>1978</u>	<u>1979</u>	<u>1978</u>
Operating Revenues	\$199,400	\$237,500	\$185,500
<u>Operating Expenses</u>			
Operation & Maintenance	124,460	129,360	124,460
Taxes Other Than Income	20,100	23,100	20,100
Depreciation	25,000	26,526	25,000
Income Taxes	2,950	11,945	1,370
Total Expenses	<u>172,510</u>	<u>190,931</u>	<u>170,930</u>
Net Operating Revenue	26,890	46,569	14,570
Depreciated Rate Base	145,735	168,550	145,735
Rate of Return	18.45%	27.63%	10.00%

We are of the opinion that a 10 percent rate of return is reasonable for applicant and comparable to what other similar sized water utilities are allowed to earn in California. Although applicant requests a further increase in rates for test year 1979, applicant's showing fails to convince us that an additional increase in rates is warranted at this time. Based on the above, we will authorize applicant to increase its revenues by \$32,100 or by 21 percent to produce an estimated return on rate base of 10 percent for test year 1978 which will produce an 11.1 percent return on common stock equity.

Rate Design

Applicant's rate proposal continues the usage of minimum charge and quantity rate tariffs. Applicant's proposal, however, does abandon declining block rates for a flat rate charge of 45 cents for each 100 cubic feet of consumption over the quantity the minimum charge will purchase for its commercial customers. Applicant also proposes a similar minimum charge tariff for its irrigation customers with all excess consumption being charged at a flat rate of 25 cents per 100 cubic feet. Applicant opposes the adoption of lifeline rates as it believes such rates would be devastating in a community where the average age of the residents is approximately 57 to 60 years old and where such residents are predominantly retirees with an average pension of approximately \$1,000 a month.

In support of its contention, applicant introduced Exhibit 10, a water use table for 1977, which shows that 77 percent of applicant's billings are for consumption under 800 cubic feet and that 23 percent of the billings are for consumption under 100 cubic feet a month.

The staff advocated the adoption of service charge rates, inverted rate blocks, and lifeline principles since it was the Commission's current policy to have all water utilities adopt lifeline rates as well as conservation oriented rates. The staff witness admitted under cross-examination that such rate design in a strictly residential community will work some inequities.

Rate Design-Discussion

Under the existing rate structure all customers are required to pay a minimum charge which entitles each customer on a 5/8 x 3/4 inch meter to receive 800 cubic feet of water each month. In a normal residential community it can be assumed that most consumers would be using the minimum quantities and, therefore, a switching from minimum charge rates to a service charge rate schedule will not result in a change in the amount of revenue collected from each customer. In the case of applicant's system where there are many part-time residents, a switch from a minimum charge rate structure to service charge rate structure will result in a reduction of rates for the part-time resident and a substantial increase for full-time residents to generate the same level of revenues. Moreover, since the record indicates that applicant needs a 21 percent increase in revenues for test year 1978 the abandonment of minimum charge tariffs will result in a further increase in rates for the full-time residents.

Adoption of lifeline principles in this particular situation also results in a similar burdening of the full-time residents who are largely pensioners and benefits the part-time residents. It is obvious from the above that adoption of service charge rates and lifeline principles for this utility is not appropriate at this time.

We are, however, interested in seeing that applicant's customers are conservation oriented. Since 77 percent of applicant's customers do not use the full allotment of water available under existing minimum charge tariffs it is apparent that the community as a whole is conservation oriented. In order to encourage conservation to the relatively smaller group of consumers using over 800 cubic feet a month we will abandon the declining rate block schedule and adopt a flat rate schedule for each 100 cubic feet of consumption in excess of what the minimum charge will purchase. We are confident in this case that such a rate structure will provide adequate incentive to conserve. We are also aware that in this retirement community the larger users may not necessarily be wasteful in their usage of water and that many residents have gardens as a retirement

activity and to also provide necessary food on their tables. In deviating from our usual practice of adopting lifeline rates and service charge rates with inverted rate schedules, we are not abandoning such policies but are recognizing that a water system with a customer mix such as applicant's requires different treatment.

Utility Audit

Mr. Hubbard representing the Paradise Pines Property Owners Association (PPPOA) made a motion that the Commission consider no rate increases until an audit of applicant's records was made by the staff. Section 314.5 of the Public Utilities Code requires an audit of a water company with more than 1,000 customers once every three years and 1,000 or fewer customers once every five years. No evidence was introduced by PPPOA to indicate that an audit was necessary before a rate increase request should be considered. In denying the homeowner's motion we are aware that Section 314.5 of the code makes such periodic audits by the staff mandatory.

Findings

1. The estimates of operating revenues, operating expenses, and rate base shown in Table 1 for test year 1978 are the reasonable test year figures for this proceeding.
2. A rate of return of 10 percent on the adopted rate base of \$145,735 for test year 1978 which is estimated to produce an 11.1 percent return on common stock equity is reasonable.
3. Applicant's service both as to quality and quantity of water is reasonable.
4. Applicant has had no rate relief since rates were initially established by Decision No. 69743 on November 8, 1965.
5. Applicant's earnings are inadequate and applicant is in need of rate relief.
6. Twenty-three percent of applicant's billing is for water consumption under 100 cubic feet a month which indicates that applicant has a substantial number of part-time residents.
7. Applicant's full-time residents are predominantly retirees living on pensions averaging approximately \$1,000 a month.

8. Applicant has few nonresidential customers with only the golf course being a substantial user.

9. Lifeline rates are unsuitable and unnecessary for a water utility with applicant's customer mix of part- and full-time residents.

10. Abandonment of minimum charge rates for service charge rates is not feasible for this utility because it will benefit the part-time residents and place a greater burden on the full-time residents.

11. In order to encourage conservation, it is reasonable to eliminate declining block rates and adopt a uniform rate for all consumption in excess of what the minimum charges will purchase.

12. The fact that 77 percent of the customers use less than the 800 cubic feet of water the minimum rates will purchase is an indication that this community of retirees is basically conservation oriented.

13. The authorized rates contained in Appendix A attached to this decision should produce test year revenues of \$185,500 or an increase of \$32,100 or 21 percent.

14. The increases in rates and charges authorized by this decision are justified and reasonable and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

15. The increase in rates to be authorized herein should be subject to the timely filing by applicant of an advice letter for a rate reduction based on the estimated 1978-79 ad valorem tax decrease. The 1978-79 estimate shall use the market values adopted by the County Assessor or the State Board of Equalization on or after May 24, 1978. The utility should be directed to establish a tax initiative account pursuant to Commission OII 19, issued June 27, 1978.

16. Applicant has not justified the need for the increases sought for test year 1979.

Conclusion

Applicant is authorized to file and place into effect the rates set forth in Appendix A.

O R D E R

IT IS ORDERED that:

1. Del Oro Water Company is authorized to file with this Commission on or after the effective date of this order, in conformity with the provisions of General Order No. 96-A, revised tariff schedules attached to this order as Appendix A. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. Applicant is directed to establish a tax initiative account pursuant to Commission OII 19, issued June 27, 1978.

3. The increase in rates ordered herein is subject to the filing of an advice letter on or before September 23, 1978 requesting a rate reduction based upon the estimated reduction in ad valorem taxes on utility property as of July 1, 1978. In the absence of such a filing the rate increase hereby authorized shall automatically terminate on September 23, 1978. The rates in effect immediately prior to the increase ordered herein shall apply thereafter and the utility shall immediately file appropriate tariffs in compliance with General Order No. 96-A.

The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 25th day of JULY, 1978.

Robert Batistich
President
William J. Quinn
Virginia L. Sturgeon
Robert D. Howell
Clair J. Deibel
Commissioners

Appendix A
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

All territory served by Del Oro Water Company in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

	<u>Per Meter Per Month</u>	
Monthly Quantity Rates:		
First 800 cu.ft. or less	\$7.80	(I)
Over 800 cu.ft., per 100 cu.ft.51	(I)
	<u>Per Meter Per Year</u>	
Annual Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 93.60	(I)
For 3/4-inch meter	116.00	
For 1-inch meter	160.00	
For 1 1/2-inch meter	254.00	
For 2-inch meter	348.00	
For 3-inch meter	436.00	
For 4-inch meter	516.00	(I)

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

Schedule No. 3M

METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to all metered irrigation service. (N)

TERRITORY

All territory served by Del Oro Water Company in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County. (N)

RATES

	<u>Per Meter Per Month</u>	
Yearly Service Charge:		
For 1-inch meter	\$160.00	(N)
For 1½-inch meter	254.00	
For 2-inch meter	348.00	
For 3-inch meter	436.00	
For 4-inch meter	516.00	(N)
Quantity Rates:		
All water per 100 cu.ft.	\$ 0.26	(N)

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

SPECIAL CONDITIONS

1. An application for service under this schedule shall be filed by the customer with the utility. Such application shall set forth the conditions of service requested and the proposed use of water.

2. The size of meter for the above service shall not be greater than reasonably necessary to furnish service to the area to be irrigated.