

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 to Executive Director

RESOLUTION NO. W-3296

EVALUATION & COMPLIANCE DIVISION
 BRANCH/SECTION: Water Utilities
 DATE: January 8, 1986

 Director

 Numerical File

 Alphabetical File

 Accounting Officer

R E S O L U T I O N

BAKMAN WATER COMPANY (BWC). ORDER AUTHORIZING
 A GENERAL RATE INCREASE PRODUCING \$51,462 OR
 16.3% ADDITIONAL ANNUAL REVENUE.

BWC, by draft advice letter received by the Water Utilities Branch (Branch) on April 2, 1985, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$72,279 or 23.3%. BWC estimates that 1985 gross revenues of \$310,660 at present rates would increase to \$382,939 at proposed rates, and would provide a rate of return of 1.65% on rate base. BWC serves about 1,737 flat rate and 25 metered customers in Fresno and vicinity, Fresno County.

The present rates have been in effect since June 2, 1981 pursuant to Resolution No. W-2835, which authorized a general rate increase.

The Branch made an independent analysis of BWC's summary of earnings. Appendix A shows BWC's and the Branch's estimates of the summary of earnings at present, requested and adopted rates. Appendix A shows differences between BWC's and the Branch's estimates in operating revenues, expenses and rate base.

The Branch's estimate of operating revenues is higher than BWC's. The difference is due to differences in the estimates of flat rate revenues and metered revenues. For flat rate revenues BWC improperly calculated the revenue derived from its multiple unit customers (normally apartment complexes). Multiple unit customers have two elements in their rates. The first and higher charge is for the primary unit (usually manager's apartment). Primary units have a higher charge because water for common use such as laundry rooms and ground keeping is charged to these units. The second charge is for additional units and is lower to reflect the lower cost to serve the additional units. In its estimate BWC applied the additional unit rate to both the primary and additional units, resulting in BWC's understated flat rate revenues. The Branch's estimate of metered revenues is based on water use data supplied by BWC. The Branch's analysis of this data indicates that BWC undercounted the number of metered customers, which is why BWC's estimate of metered revenues is lower.

The differences in the estimates of operating expenses are in payroll, materials, office supplies and expenses, accounting and legal, general expense, office and storage rental, interest expense, PUC reimbursement fee, depreciation, property taxes, payroll taxes, and income taxes.

As discussed below, for most expenses both the Branch and BWC used recorded 1984 as a base from which 1985 test year projections were made. The Branch then arrived at adjusted 1985 test year by applying to recorded 1984 a labor or non-labor escalation factor depending on the expense item. These factors are 3.5% and 1.1% respectively and were found reasonable by the Research Branch of the Evaluation and Compliance Division (ECD). BWC's comparable increases are 16.5% for payroll and range from 14.6% to 67% for non-labor expenses. In the Branch's view, BWC's proposed percentage increase in expenses are simply too high in this time of moderate inflation and negligible system growth. Other expense estimate differences between BWC and the Branch are due to differences in estimating methodologies and conflicting information for data prior to 1984 between BWC's annual reports and workpapers.

BWC's estimate of payroll (employee labor, office and management salaries) is \$93,000 whereas the Branch's is \$82,660. BWC's payroll estimate represents an increase of 16.5% over the 1984 recorded level of \$79,860. In light of the negligible customer growth in the system over the past few years (less than 1%), the Branch believes that BWC's estimate is too high. The Branch used the 3.5% labor escalation factor found reasonable by ECD's Research Branch.

BWC's estimate for materials expense is \$42,025 while the Branch's estimate is \$26,410. BWC's materials estimate represents an increase of 14.6% over the \$36,648 recorded for 1984. As with BWC's estimate of payroll, the Branch believes that BWC's estimate is too high and notes that the utility did not address \$15,790 of non-recurring pump repair costs incurred in 1984. For its estimate, the Branch amortized the pump repairs cost over three years. The three years relates to the three-year cycle for water utility general rate increases. The remaining \$20,858 (\$36,648 - \$15,790) was increased by 1.1% which is the non-labor escalation found reasonable by ECD's Research Branch.

BWC's estimate of office supplies and expense is \$10,783 versus the Branch's estimate of \$9,240. BWC's estimate assumes that this expense will increase by 18% for 1985 over recorded 1984. The Branch increased the recorded 1984 expense by 1.1%, the non-labor escalation factor, and believes this to be a more reasonable estimate.

BWC's estimate for accounting, legal and other expenses is \$5,000 while the Branch's estimate is \$3,270. BWC selected the highest recorded expense (rounded to the nearest thousand) in the last three years to be its estimate for this item. As with other expenses, the Branch used recorded 1984 as a base, and escalated this amount by the previously mention 3.5% labor inflation factor. BWC's estimate represents an increase of 58%, which the Branch believes is too high and does not represent the current inflation trend or typical year expenditures for this account.

BWC's estimate for general expense is \$16,544 and represents an increase of 67% over 1984 recorded. BWC's estimate is based on five-year (1980-1984) record of the average cost per customer as submitted in its workpapers. The Branch discovered in its review that there are large discrepancies in this account between BWC's annual reports on file with the Commission and the workpapers

submitted with this rate increase request for years prior to 1984. In any event, the Branch believes that 67% is unrealistic and based its estimate on 1984 recorded increased by the non-labor inflation factor to arrive at the 1985 test year amount. To this result, the Branch added a three-year amortization of \$1,404 for the one-time water testing mandated by Assembly Bill 1803 which was not included by BWC in its estimate.

BWC's estimate for office and storage rental is \$24,000 while the Branch's estimate is \$14,960. As with its estimate of accounting and legal expenses, BWC selected the highest rental expense in the last three recorded years (1982, 1983 and 1984) to estimate the 1985 test year expense for this item. The Branch's review of this account indicates that recorded 1982 and 1983 were substantially higher than 1984, the reason for this was unsupported by BWC's workpapers. The Branch increased 1984 recorded rental expense by the non-labor escalation factor to arrive at its estimate and believes this is reasonable in light of BWC's failure to explain why it believes that this expense is going to increase by 60% over that in 1984.

BWC in its estimate of operating expenses also included an amount for interest expense which is not an operating expense for ratemaking, but is allowed as a deduction to reduce taxable income in the income tax computation.

BWC in its estimate of operating expenses included the 1-1/2% PUC reimbursement fee, whereas the Branch did not since the fee is recovered by a surcharge and does not affect BWC's revenue requirement. In its investigation the Branch discovered that BWC has been paying the fee to the Commission but has inadvertently failed to collect the surcharge from its customers as authorized. Rather than pay the fee out of pocket, BWC should apply the surcharge to its billings.

The Branch's estimate of property taxes is slightly higher than BWC's. The difference is due to later property tax bills available to the Branch.

Payroll tax estimate by the Branch is lower than BWC's. The difference is due to the difference in the total payroll.

For its federal income tax calculation, BWC incorrectly used the flow-through method instead of the normalization method specified by the Economic Recovery Tax Act of 1981.

The difference in rate base estimates is due to differences in the estimates of advances, contributions and working cash allowance.

The difference in the estimates of advances results from BWC's failure to account for advances related to new development in 1984 and 1985. The net effect is that the Branch's 1985 test year estimate is about \$47,000 higher than BWC's.

The Branch's estimate of contributions in aid of construction is lower than BWC's. BWC had incorrectly included amounts for contributed plant as advances for construction, a double counting. The net effect is about \$29,000 difference between BWC and the Branch.

The difference in the estimates of working cash is due to differences in operating expenses.

B&C's summary of earnings submitted with its rate increase request shows a rate of return on rate base of 1.65%. The Branch's recommended revenue increase will produce a rate of return of 11.25%. This rate of return, although higher than that submitted by B&C, was recommended by ECD's Financial Branch after a review of B&C's finances. The Branch believes that a return of 11.25% is reasonable and does not result in B&C being granted more in revenue than it requested.

B&C was informed about the Branch's differing views of revenues, expenses, rate base, and rate of return, has stated that it accepts the Branch's estimates.

Notices of the proposed increase were mailed to all customers on May 29, and September 3, 1985. No letters of protest were received.

Service is satisfactory and there are no outstanding Commission orders requiring system improvements.

The Branch's recommended rate structure is in conformance with the Commission's model rate structure with a service charge, 300 cubic feet lifeline - block, and an inverted tail-block. The recommended rates provide the 25% lifeline differential. Monthly bills for a typical residential customer will increase from \$7.00 to \$8.15. A comparison of present and the Branch recommended rates is shown in Appendix C.

The Branch concurs with B&C's proposal to establish a new flat rate service at \$5.00 a month for a small business establishment with one toilet and wash basin and served from a 3/4-inch service connection (standard service connection size). B&C is primarily a flat rate system with no 5/8 x 3/4-inch meters. The present tariff rate for a business establishment is unreasonable for a small business establishment that would only use a small amount of water. The new flat rate would only apply to those business establishments with one toilet and wash basin and served from a 3/4-inch service connection.

The Branch recommends that the Commission authorize an increase of \$51,462 or 16.3% which would increase estimated annual revenue from \$316,038 at present rates to \$367,500 at recommended rates shown in Appendix B. This increase provides an 11.25% rate of return on rate base.

The Commission's opinion, after investigation by the Branch is that:

- a. The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
- b. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
- c. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.

THE COMMISSION FINDS that the increased rates hereby authorized are justified and the present rates are, for the future, unjust and unreasonable.

IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for Bakman

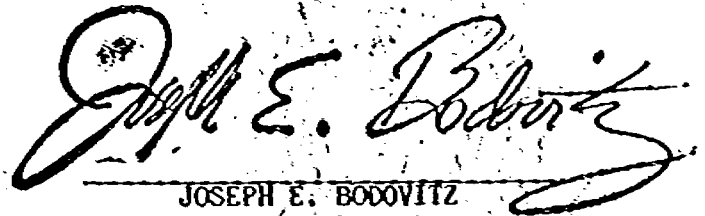
Water Company to file an advice letter incorporating the Summary of Earnings and revised rates Schedules Nos. 1, 2, and 4 attached to this resolution as Appendices A and B, respectively, and concurrently to cancel the applicable presently effective rates schedules. Such filing shall comply with General Order 96-A.

2. The effective date of the revised rates schedules shall be the date of filing.

3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on January 8, 1986. The following Commissioners approved it:

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
WILLIAM T BAGLEY
FREDERICK R. DUDA
Commissioners


JOSEPH E. BODOVITZ
Executive Director

APPENDIX A

Bakman Water Company

Summary of Earnings
(Estimated Year 1985)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue					
Flat Rate-Residential	\$283,308	\$337,388	\$287,510	\$349,930	\$334,730
Metered	16,174	31,583	17,350	20,890	20,200
Private Fire	8,370	11,160	8,370	11,160	9,762
Public Fire	2,808	2,808	2,808	2,808	2,808
Total	<u>310,660</u>	<u>382,939</u>	<u>316,038</u>	<u>384,788</u>	<u>367,500</u>
Operating Expenses					
Purchased Power	105,000	105,000	105,000	105,000	105,000
Employee Labor	45,000	45,000	42,600	42,600	42,600
Materials	42,025	42,025	26,410	26,410	26,410
Office Salaries	40,000	40,000	34,250	34,250	34,250
Management Salaries	8,000	8,000	5,810	5,810	5,810
Office Supplies & Exp.	10,783	10,783	9,240	9,240	9,240
Insurance	20,000	20,000	20,000	20,000	20,000
Accounting, Legal, etc.	5,000	5,000	3,270	3,270	3,270
General Expenses	16,544	16,544	10,480	10,480	10,480
Office Services & Rentals	24,000	24,000	14,960	14,960	14,960
Total	<u>316,352</u>	<u>316,352</u>	<u>272,020</u>	<u>272,020</u>	<u>272,020</u>
Interest Expense	11,000*	11,000*	0	0	0
PUC Reimbursement Fee	0	5,744*	0	0	0
Depreciation	24,075	24,075	24,075	24,075	24,075
Property Taxes	5,099	5,099	5,660	5,660	5,660
Payroll Taxes	9,800	9,800	6,440	6,440	6,440
Income Taxes	200	3,904	890	19,910	13,560
Total Deductions	<u>366,526</u>	<u>375,974</u>	<u>309,085</u>	<u>328,105</u>	<u>321,755</u>
Net Revenue	(55,866)	6,965	6,953	56,683	45,745
Rate Base					
Utility Plant	1,473,630	1,473,630	1,473,630	1,473,630	1,473,630
Depreciation Reserve	426,850	426,850	426,850	426,850	426,850
Net Plant	1,046,780	1,046,780	1,046,780	1,046,780	1,046,780
Less: Advances	99,828	99,828	146,940	146,940	146,940
Contributions	527,485	527,485	498,180	498,180	498,180
Plus: Working Cash	3,530	3,530	5,050	5,050	5,050
Mat'ls. & Suppls.	0	0	0	0	0
Rate Base	422,997	422,997	406,710	406,710	406,710
Rate of Return	Loss	1.65%	1.71%	13.94%	11.25%

(Red Figures)

*B&C inadvertently included in the operating expenses

APPENDIX B
(Page 1)

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Sunnyside Avenue, located approximately 1-1/2 miles east of Fresno, and vicinity, Fresno County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 3.15	(I)
For 3/4-inch meter	3.40	-----
For 1-inch meter	4.50	-----
For 1-1/2-inch meter	6.70	-----
For 2-inch meter	9.00	-----
For 3-inch meter	18.00	-----
For 4-inch meter	25.00	-----
For 6-inch meter	42.00	-----
For 8-inch meter	60.00	-----
For 10-inch meter	75.00	(I)

Quantity Rates

For the first 300 cu.ft., per 100 cu.ft.	0.21	(I)
For all over 300 cu.ft., per 100 cu.ft.	0.29	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

APPENDIX B
(Page 2)

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Sunnyside Avenue, located approximately 1-1/2 mile east of Fresno and vicinity, Fresno County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. For a single-family residential unit including premises not exceeding 14,000 sq. ft. in area	\$ 8.15	(I)
2. For a multiple unit residential unit, including two units and premises	11.64	(I)
a. For each additional unit	5.82	(I)
3. For each business establishment with one toilet and wash basin and served from a 3/4-inch service connection	5.00	(N)
4. For each business establishment served from a 1-inch service connection	15.72	(I) (T)
5. For a 2-inch service connection to Raintree Nursing Home	36.09	(I) (C)
6. For a 4-inch service connection to Easterby School No. 2 (Turner School)	101.29	(I) (C)

SPECIAL CONDITIONS

1. The above flat rate apply to service connections not larger than one inch in diameter except as noted.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule (D) No. 1, General Metered Service.

APPENDIX B
(Page 3)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The area bounded by Olive Avenue, East Kings Canyon Road, Winery Avenue and Sunnyside Avenue, located approximately 1-1/2 miles east of Fresno and vicinity, Fresno County.

RATE

Per Month

For each inch of diameter of service connection \$ 1.75 (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. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. 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 the applicant. Such payment shall not be subject to refund.
4. 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.
5. 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.

(END OF APPENDIX B)

APPENDIX C
(Page 1)

COMPARISON OF RATES

A comparison of present and Branch's recommended rates for metered service is shown below:

<u>METERED SERVICE</u>	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.70	\$ 3.15
For 3/4-inch meter	2.90	3.40
For 1-inch meter	3.85	4.50
For 1-1/2-inch meter	5.75	6.70
For 2-inch meter	7.70	9.00
For 3-inch meter	15.35	18.00
For 4-inch meter	21.75	25.00
For 6-inch meter	35.85	42.00
For 8-inch meter	51.20	60.00
For 10-inch meter	64.00	75.00
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.	0.18	0.21
Over 300 cu.ft., per 100 cu.ft.	0.25	0.29

A monthly bill comparison for a 2-inch meter is shown below (majority of metered customers are served with a 2-inch meters):

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> ¹ <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 7.70	\$ 9.00	\$ 1.30	16.9
3	8.24	9.63	1.39	16.9
10	9.99	11.66	1.67	16.7
50	19.99	23.26	3.27	16.4
100	32.49	37.76	5.27	16.2
150	44.99	52.26	7.27	16.2
200	57.49	66.76	9.27	16.1

¹ Also adopted.

APPENDIX C
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A comparison of present and the Branch's recommended rates for flat rate service is shown below:

<u>GENERAL FLAT RATE SERVICE</u>	<u>Per Service Connection</u>		<u>Per Month</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increases</u>
1. For a single-family residential unit, including premises having the following areas not exceeding 14,000 sq. ft.	\$ 7.00	\$ 8.15	16.43
2. For a multiple unit residential unit, including two units and premises	10.00	11.64	16.43
a. For each additional unit	5.00	5.82	16.43
3. For each business establishment with one toilet and wash basin and served from a 3/4-inch service connection	—	5.00	—
4. For each business establishment served from a 1-inch service connection	13.50	15.72	16.43
5. For a 2-inch service connection to Raintree Nursing Home	31.00	36.09	16.43
6. For a 4-inch service connection to Easterby School No. 2 (Turner School)	87.00	101.29	16.43
<u>PRIVATE FIRE PROTECTION SERVICE</u>			
For each inch of diameter of service connection	1.50	1.75	16.43

(END OF APPENDIX C)

APPENDIX D
(Page 1)

ADOPTED QUANTITIES
(Test Year 1985)

Name of Company: Bakman Water Company

Net-to-Gross Multiplier:	1.3517
Federal Tax Rates:	18.0%
State Tax Rate:	9.6%
Uncollectible Rate:	0.2%

Offset Items

1. Purchased Power (Electric)	
Pacific Gas and Electric Company	
Total Cost	\$105,000
kWh	1,247,045
Eff. Sch. Date	8/7/85
\$/kWh (inc. \$.0002 CEC)	0.0842
2. Payroll	
Employee Labor	\$42,600
Office Salaries	34,250
Adm. & Mgmt. Sal.	5,810
Total	\$82,660
3. Payroll Taxes:	6,440
4. Ad valorem Taxes	5,660
Tax Rate	1.088546%
Assessed Value	519,960

Service Connections

1. Meter Size	
5/8 x 3/4"	
3/4"	
1"	
1-1/2"	1
2"	18
3"	6
4"	
6"	
8"	
10"	—
Total	25

Metered Water Sales Used to Design Rates:

	<u>Range - ccf/mo.</u>	<u>Usage - ccf/yr.</u>
Block 1	0-3 ccf	864
Block 2	Over 3 ccf	57,448
Total		58,312

APPENDIX D
(Page 2)

ADOPTED QUANTITIES
(Test Year 1985)

GENERAL FLAT RATE SERVICE

<u>Commercial</u>	<u>Number of Services</u>
1. For a single-family residential unit, including premises having the following areas not exceeding 14,000 sq. ft.	1,610
2. For a multiple unit residential unit, including two units and premises	70
a. For each additional unit	2,211 ^{1/}
3. For each business establishment with one toilet and wash basin and served from a 3/4-inch service connection	--
4. For each business establishment served from a 1-inch service connection	54
5. For a 2-inch service connection to Raintree Nursing Home	1
6. For a 4-inch service connection to Easterby School No. 2 (Turner School)	3,948 ^{2/}
Total	11,737

PRIVATE FIRE PROTECTION SERVICE

For each inch of diameter of service connection 465inches/97^{2/}

PUBLIC FIRE HYDRANT SERVICE

For each fire hydrant 78

^{1/} Included additional units.
^{2/} Number of service connections

APPENDIX D
(Page 3)

ADOPTED INCOME TAX CALCULATIONS
(Test Year 1985)

<u>Line No.</u>	<u>Item</u>	<u>Adopted Rates</u>	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$367,500	\$367,500
2.	Operating Expenses	272,020	272,020
3.	Taxes Other Than Income	12,100	12,100
4.	Depreciation	24,075	24,075
5.	Interest Expense	4,000	4,000
6.	CCFT (Line No. 9)	<u> --</u>	<u> 5,310</u>
7.	Total Deductions	312,195	317,505
8.	State Taxable Income	55,305	--
9.	CCFT	5,310	--
10.	Federal Taxable Income	--	49,995
11.	FIT	--	8,250
12.	ITC	--	--
13.	Net FIT	<u> --</u>	<u> 8,250</u>
14.	Total Income Taxes (Lines 9+13)	5,310	8,250

(END OF APPENDIX D)