

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 to Executive Director

RESOLUTION NO. W-3298

EVALUATION & COMPLIANCE DIVISION  
 BRANCH/SECTION: Water Utilities  
 DATE: January 23, 1986

----- Director  
 ----- Numerical File  
 ----- Alphabetical File  
 ----- Accounting Officer

RESOLUTION

BIG LAGOON WATER COMPANY (BLW). ORDER AUTHORIZING  
 A GENERAL RATE INCREASE PRODUCING \$3,652 OR 100%  
 ADDITIONAL ANNUAL REVENUE.

BLW, by draft advice letter furnished to the Water Utilities Branch (Branch) on June 28, 1985, 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 \$3,652 or 100%. BLW estimates that 1985 gross revenue of \$3,652 at present rates would increase to \$7,304 at proposed rates and would provide a rate of return of 3.0% on rate base. BLW currently serves about 28 metered customers in the vicinity of Big Lagoon Park Subdivision-Block A, Humboldt County.

The present rates have been in effect since May 2, 1980 pursuant to Resolution W-2618, dated April 2, 1980 which authorized a general rate increase.

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

The differences in estimates of operating expenses are in purchased power, insurance, vehicle expense and depreciation.

The Branch's estimate of purchased power is lower than BLW's. BLW provided no workpapers supporting its estimate. The Branch's estimate is based on the average of the annual kilowatt-hours used, as determined from BLW's 1983, 1984 and 1985 power bills, and the latest power rates.

The Branch's estimate of insurance is higher than BLW's. The difference is due to the Branch's use of the latest insurance rate which was not available to BLW at the time the rate increase request was submitted.

The Branch's estimate for vehicle expenses is lower than BLW's. BLW provided no workpapers supporting its estimate. The Branch made its estimate from a

mileage allowance of \$0.205 per mile and the miles of vehicle use provided by BLW. This per-mile allowance provides for all operating and maintenance expenses at present day costs. It is the same as allowed by the Internal Revenue Service and is considered reasonable by the Branch for the pickup truck used by BLW.

BLW overlooked including depreciation expense in its estimate of expenses for ratemaking. Consistent with Commission policy, the Branch includes depreciation expense in its estimate.

The Branch's estimate of rate base is lower than BLW's. The difference is due to difference in estimates of depreciation reserve. BLW made an inadvertent calculation error in its estimate.

The summary of earnings submitted with BLW's rate increase request shows a rate of return on rate base of 3.0%. The Branch's recommended summary of earnings shows a rate of return of 0.6%. This rate of return, although lower than that submitted by BLW, results in BLW being granted the total revenue requested.

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

A notice of the proposed increase was mailed to each customer on July 7, 1985. Two letters were received in response. Both complained about low water pressure; one also protested the magnitude of the rate increase. The Branch has drafted a letter of reply to the customers who responded. It explains the Commission's action and will be mailed after the resolution is signed. The draft letter is attached as Appendix E.

A field investigation of BLW's system was made on June 19, 1985 by a member of the Branch. Water pressure throughout the system, including at the residences of the customers complaining of low pressure, was tested and found to be within the range required by the Commission's General Order 103, Rules Governing Water Service. Service is satisfactory.

The field investigation indicated that low pressure may be experienced by some customers when water is being used even though pressure tests indicate pressure above that required by Commission standards. This often occurs in old systems and results from advanced corrosion of the interior of the utility's delivery mains and the customer's service lines. Although posing no health hazard, it can be expected that corrosion will continue and ultimately main and service replacements will be necessary.

At this time the Branch believes the indicated corrosion problem in BLW's system to be less than would require Commission action. However, BLW should be aware that the problem will likely continue to worsen and it should begin to make plans for main replacements when necessary.

BLW is not in compliance with ordering paragraph No. 5 of Decision (D) 84-12-041, which ordered BLW to file an annual report for the calendar year 1983. However, since the present owner did not own the utility at that time and the previous owner did not provide this information, it is impossible for the current owner to file a correct 1983 annual report. Therefore, the Branch recommends that BLW be relieved of this obligation.

BLW's present rates consist of a service charge and a multi-block quantity rate structure. 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 \$10.61 to \$21.47. A comparison of present and the Branch recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$3,652 or 100% which would increase estimated annual revenue from \$3,652 at present rates to \$7,304 at recommended rates contained in Appendix B. This increase provides the revenue requested by BLW and results in a .6% rate of return on rate base. The Branch is aware that this is a large increase. However, BLW has been operating at a loss for many years and even with the increase will barely break even.

The Commission's opinion, after investigation by the Water Utilities 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 authorized.
- c. The quantities (Appendix D) used to develop the Branch's recommendation are reasonable and should be adopted.
- d. BLW should be relieved from ordering paragraph No. 5 of D.84-12-041.

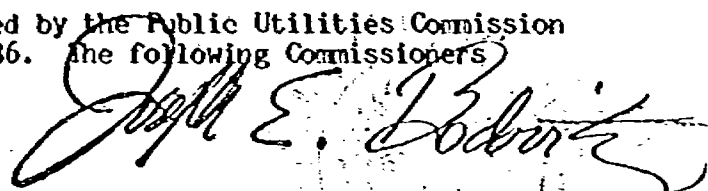
THE COMMISSION FINDS that the increased rates hereby authorized are justified and that the present rates are, for the future, unjust and unreasonable.

IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for Big Lagoon Water Company to file an advice letter incorporating the Summary of Earnings and revised rate Schedule No. 1 attached to this resolution as Appendices A and B, respectively, and concurrently to cancel the presently effective rate Schedule No. 1. Such filing shall comply with General Order 96-A.
2. The effective date of the revised rate schedule shall be the date of filing.
3. Ordering paragraph No. 5 of D.84-12-041 is rescinded.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on January 23, 1986. The following Commissioners approved it:

DONALD VIAL  
President  
PRISCILLA C. GREW  
FREDERICK R. DUDA  
Commissioners

  
JOSEPH E. BODOVITZ  
Executive Director

APPENDIX A

BIG LAGOON WATER COMPANY

SUMMARY OF EARNINGS

(Estimated Year 1985)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present : : Rates :	: Requested: : Rates :	: Present : : Rates :	: Requested: : Rates :	
Operating Revenue	\$ 3,652	\$ 7,304	\$ 3,652	\$ 7,304	\$ 7,304
<u>Operating Expenses</u>					
Purchased Power	800	800	690	690	690
Payroll	2,400	2,400	2,400	2,400	2,400
Insurance	875	875	1,360	1,360	1,360
Vehicle Expense	2,200	2,200	1,070	1,070	1,070
Total Expenses	\$ 6,275	\$ 6,275	\$ 5,520	\$ 5,520	\$ 5,520
Depreciation	0	0	1,590	1,590	1,590
Property Taxes	0	0	0	0	0
Income Taxes	0	0	0	0	0
Total Deductions	\$ 6,275	\$ 6,275	\$ 7,110	\$ 7,110	\$ 7,110
Net Revenue	(\$ 2,623)	\$ 1,029	(\$ 3,458)	\$ 194	\$ 194
<u>Rate Base</u>					
Average Plant	55,664	55,664	55,664	55,664	55,664
Average Depr. Res.	22,296	22,296	24,285	24,285	24,285
Net Plant	33,368	33,368	31,379	31,379	31,379
Working Cash	570	570	570	570	570
Depreciated Rate Base	\$33,938	\$33,938	\$31,949	\$31,949	\$31,949
Return on Rate Base	Loss	3.0%	Loss	0.6%	0.6%

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Big Lagoon Park Subdivision-Block A and vicinity, Humboldt County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter .....	\$ 11.50	(I)
For 3/4-inch meter .....	12.60	
For 1-inch meter .....	17.30	
For 1-1/2-inch meter .....	24.00	
For 2-inch meter .....	31.00	(I)

Quantity Rates

First 300 cu.ft., per 100 cu.ft. ....	1.15	(I)
Over 300 cu.ft., per 100 cu.ft. ....	1.63	(I)

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

APPENDIX C

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</u>	<u>Per Month</u>
Service Charge:		<u>Present</u>	<u>Recommended</u>
		<u>Rates</u>	<u>Rates</u>
For	5/8 x 3/4-inch meter .....	\$ 5.75	\$ 11.50
For	3/4-inch meter .....	6.30	12.60
For	1-inch meter .....	8.65	17.30
For	1-1/2-inch meter .....	12.00	24.00
For	2-inch meter .....	15.50	31.00
Quantity Rates:			
First	300 cu.ft., per 100 cu.ft. ....	0.58	1.15
Next	1,700 cu.ft., per 100 cu.ft. ....	0.78	
Over	2,000 cu.ft., per 100 cu.ft. ....	0.97	
Over	300 cu.ft., per 100 cu.ft. ....		1.63

A monthly bill comparison for a 5/8 x 3/4-inch meter is shown below:

<u>Usage</u>	<u>Present</u>	<u>Recommended</u>	<u>Amount</u>	<u>Percent</u>
<u>100 cu.ft.</u>	<u>Bills</u>	<u>Bills</u>	<u>Increase</u>	<u>Increase</u>
0	\$ 5.75	\$ 11.50	\$ 5.75	100.00
3	7.49	14.95	7.46	99.60
7	10.61	21.47	10.86	102.36
10	12.95	26.36	13.41	103.55
13	15.29	31.25	15.96	104.38

APPENDIX D  
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ADOPTED QUANTITIES  
(1985 Test Year)

Name of Company: Big Lagoon Water Company

Net-to-Gross Multiplier:	1.000
Federal Tax Rates:	0.0%
State Tax Rate:	0.0%
Local Franchise Tax Rate:	0.0
Business License:	0.0
Uncollectible Rates:	0.0

Expenses Test Year 1985

1. <u>Purchased Power</u>	
<u>Pacific Gas and Electric</u>	
Total Cost (\$)	\$690
Rate Schedule	A-1P
Effective Date	9/1/85
kwh:	7,200
\$/kwh	0.0958
2. Purchased Water:	None
3. Pump Tax-Replenishment Tax	None
4. Payroll and Employee Benefits:	
Management Salary	\$2,400
5. Ad Valorem Taxes:	0

Service Connections

1. Meter Size	No.
5/8 x 3/4" .....	24
3/4" .....	3
1" .....	1
1-1/2" .....	0
2" .....	0
Total	28

2. Metered Water Sales Used to Design Rates:

	<u>Range - ccf</u>	<u>1985</u> <u>Usage - ccf</u>
Block 1	0-3 ccf	1,008
Block 2	Over 3 ccf	1,332
Total		2,340

APPENDIX D  
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ADOPTED TAX CALCULATIONS

Line No.	Item	1985 Adopted Rates	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$7,304	\$7,304
2.	Operating Expenses	5,520	5,520
3.	Taxes Other Than Income	0	0
4.	Tax Depreciation	1,590	1,590
5.	Interest	0	0
6.	State Income Tax	-	0
7.	Sub-total Deduction	7,110	7,110
8.	State Taxable Income	194*	-
9.	State Income Tax	0	-
10.	Federal Taxable Income	-	194*
11.	Federal Income Tax	-	0
12.	Total Income Tax	0	0

\* Sole proprietor, not corporation

(END OF APPENDIX D)



APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 100% RATE INCREASE BY BIG LAGOON WATER COMPANY

Dear Customer:

After considering all factors presented, the Commission has authorized an increase of 100%. For the typical customer this will mean an increase in the monthly bill from \$10.61 to \$21.47. The Commission is aware that the increase granted is large. However, this utility has been operating at a loss for many years.

In establishing rates, the Commission's role is twofold. The rates to the ratepayer must be kept as low as possible and, at the same time, set so as to cover operating expenses and provide a fair return on the utility's investment in its water system. You may be assured that the utility's request was thoroughly reviewed and evaluated by the Commission staff before this change in rate was granted.

Two customers wrote to the Commission complaining about low water pressure. One also protested the magnitude of the utility's requested increase. A field investigation of Big Lagoon Water Company's system was made on June 19, 1985 by a member of the Water Utilities Branch staff. At that time, water pressure throughout the system was within the range prescribed by the Commission's General Order 103, Rules Governing Water Service.

We appreciate your writing to us. If you have any further questions, please contact Peter T. Liu at (415) 557-0940.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch