

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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RESOLUTION NO. W-3305

EVALUATION & COMPLIANCE DIVISION
BRANCH/SECTION: Water Utilities
DATE: March 19, 1986

RESOLUTION

SIERRA KING WATER COMPANY (SKWC). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$5,138 OR 243.3% ADDITIONAL ANNUAL REVENUE, TO BE IMPLEMENTED IN THREE STEPS. INITIAL INCREASE OF \$2,888 OR 136.7% IN 1986, FOLLOWED BY AN INCREASE OF \$2,720 OR 54.5% IN 1987 AND A DECREASE OF \$470 OR 6.1% IN 1988.

SKWC, by letter to the Water Utilities Branch (Branch) on May 3, 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 to produce additional gross annual revenue of \$8,930 or 423%. SKWC estimates that the 1985 gross revenue of \$2,112 at present rates would increase to \$11,040 at proposed rates and would produce a return of 16.7% on rate base. SKWC currently serves about 22 flat rate customers in its service area located about 5 miles northeast of Three Rivers, Tulare County.

The present flat rate has been in effect since May 5, 1974, pursuant to Resolution W-1551, dated April 30, 1974, which authorized a general rate increase.

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

For operating expenses, SKWC requested a lump sum of \$5,950. The \$5,950 included \$2,100 for purchased power, \$2,600 for payroll and \$1,250 for other operation and maintenance (O&M) expenses. The Branch believes that SKWC's purchased power estimate is reasonable. However, no detail of estimated payroll or other O&M expenses was provided to the Branch. SKWC's request would result in a payroll and other O&M expenses allowance of approximately \$175 per customer per year (\$3,850/22 customers). The Branch notes that SKWC does not need to treat its water supply and its service area is small, about 21 acres. Because of this, the Branch believes that SKWC's estimate of payroll and other O&M expenses is excessive. The Branch's review of these expenses adopted for similar small water utilities in recent rate increases indicates that \$76 per customer is more reasonable for SKWC and results in a total of about \$1,670

(\$76 x 22). The Branch has distributed the \$1,670 between payroll and other O&M expenses using the same ratio as SKWC's requested amounts for these expenses.

The Branch's estimate of depreciation expense is slightly higher than SKWC's. The Branch estimated a composite depreciation rate of 3.0% which is the same as the rate last approved by the Commission for SKWC. SKWC used a composite rate of 2.4%, but did not provide workpapers supporting it.

The difference in the estimates of rate base is due to differences in plant in service, depreciation reserve, and working cash.

HWC's estimate of plant is \$33,442 versus the Branch's estimate of \$28,740. The difference results because SKWC failed to properly account for the purchase of a new pump and the retirement of an old pump in its annual reports to the Commission.

The difference in depreciation reserve is due to differences in depreciation expense and plant as explained above.

The Branch's estimate for working cash is lower than SKWC's. The Branch made its estimate using procedures established in the Commission's Standard Practice U-16, Determination of Working Cash Allowance. SKWC did not provide workpapers to support its estimate.

SKWC's summary of earnings submittal with its rate increase request shows a rate of return of 16.7% on rate base. This is above the rate of return range (10.75% to 11.25%) recommended by the Financial Branch of the Evaluation and Compliance Division for small water utilities. The Branch recommends the midpoint rate of return of 11.0% for SKWC and believes this amount is reasonable.

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

SKWC mailed a notice of the proposed rate increase to each customer on September 3, 1985. Seven individual letters and a petition signed by twenty customers protesting the size of the rate increase request were received. In addition, some of the customers complained about occasional water outages and low pressures. The majority of SKWC's customers requested that meters be installed.

A field investigation of SKWC's system was made on October 14, 1985. Visible portions of the water system were inspected, pressures checked, the company employee interviewed, and methods of operation reviewed. During the field investigation, the Branch interviewed 9 of SKWC's 22 customers. These customers protested the size of the requested increase but were basically satisfied with the service. However, two customers did complain about low pressures.

The field investigation indicated that SKWC has a 5,000-gallon hydropneumatic tank without an air compressor. This has resulted in the tank being waterlogged. The Branch believes this to be the cause of the outage and pressure problems. The Branch recommends that SKWC be ordered to install an air compressor on the 5,000 gallon hydropneumatic tank to improve pressure and

reliability of service. The Branch estimates that it would cost about \$1,800 to purchase and install the air compressor. This cost, which amounts to \$1 per customer per month, has not been included in the Branch's recommended rates because there is no assurance that SKWC will install the air compressor. The Branch recommends that SKWC file an advice letter to offset the cost of the compressor after it has been purchased, installed and put into operation.

Concerning the requests by customers for meters, the Branch believes that there is no economic justification for metering at this time because SKWC has an ample water supply. The Branch estimates that it would cost SKWC about \$4,600 to install meters for its present customers, money that SKWC, a marginally viable utility, does not have. To recover these costs, SKWC would have to raise its rates for each customer by \$2.50 per month. In addition, meters would have to be read and bills computed, and this would cause operating expenses to go up. The Branch recommends that SKWC's Schedule No. 1A, General Metered Service be eliminated because at this time it has no practical purpose in this small, marginally viable, no growth, rural system. If conditions change, a metered schedule can be reinstated.

The Branch drafted a letter of reply to all customers who have written to the Commission about this increase. It explains the Commission's action and will be mailed after the resolution is signed. The letter also explains the rate impact on metering and tells the customers to write the Commission if they still wish to be metered. The draft letter is attached as Appendix E.

Service is adequate and there are no outstanding Commission orders requiring compliance.

The increase resulting from the Branch's recommended level of operating expenses, rate base and rate of return would result in a 243.3% increase for SKWC.

The Commission's CAPS Policy provides that when there is a need to increase revenue for a small water utility over 100%, that the portion of the increase in excess of 100% should be deferred with interest to the following year. The exception is that sufficient revenues should be provided in the first year to at least meet operating expenses for that year. Under this policy, the interest rate is set equal to the rate of return on rate base, in this case it is 11.0%.

In compliance with CAPS, the Branch recommends a three-step implementation of this increase. The first increase under CAPS would be 136.7%, followed 12 months later by a second increase of 54.4% (includes carrying costs on deferred revenue); and 12 months after the second increase, a rate decrease of 6.1%.

The initial increase of 136.7% in 1986 provides a 0% return on rate base but would bring SKWC to the break-even point. The increase of 54.4% in 1987 provides a 13.1% return on rate base because of the 1986 deferred revenue plus interest at 11.0%. The 6.1% rate decrease in 1988 ensures that within the 3-year rate case cycle for SKWC, the overall rate increase and rate of return are brought back to the levels authorized, or 243.3% and 11.0%, respectively.

Under the recommended rates the monthly bills for a residential customer will increase from the present \$8.00 to \$18.94 at this time, to \$29.25 on January 1,

1987, and decrease to \$27.45 on January 1, 1988. Appendix C shows rates at present and Branch's recommended levels.

The Branch recommends that the Commission authorize an increase of \$5,138 or 243.3% which would increase estimated annual revenue from \$2,112 at present rates to \$7,250 at rates recommended by the Branch. The Branch recognizes that this is a very large increase. However, SKWC has been operating at a loss for several years and without a rate increase since 1974. The Branch also notes that the existing rates are among the lowest in California. A closer view shows that this 243.3% increase is comprised as follows: (1) service improvements - 29.0%, (2) rate of return increase - 77.0%, and (3) inflation - 137.3%. It is the Branch's belief that each element of this increase is reasonable. This increase provides for an 11.0% 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 (attached as Appendix A) is reasonable and should be adopted.
- b. The rates recommended by the Branch (attached as Appendix B) are reasonable and should be adopted.
- c. The quantities (attached as Appendix D) used to develop the Branch's recommended summary of earnings should be adopted.
- d. Installation of an air compressor on SKWC's 5,000-gallon hydropneumatic tank is reasonable and a related advice letter offset to rate base should be authorized.
- e. SKWC's Schedule No. 1A, General Metered Service, should be eliminated.

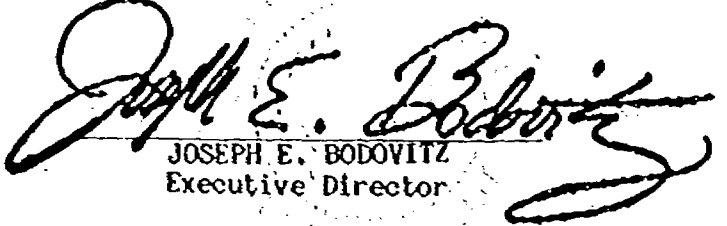
The Commission finds that the increased rates hereby authorized are justified and that the present rates are, for the future, unjust and unreasonable.

IT IS RESOLVED that:

1. Authority is granted under Section 454 of the Public Utilities Code for Sierra King Water Company to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, and concurrently to eliminate Schedule No. 1A, Annual General Metered Service and cancel the presently effective rate Schedule No. 2AR. Such filing shall comply with General Order 95-A.
2. The effective date of the revised rate schedule shall be the date of filing.
3. Within 90 days after the effective date of this resolution, Sierra King Water Company shall install an air compressor on its 5,000 gallon hydropneumatic tank and submit to the Commission, proof that it is in operation. SKWC may file an advice letter to offset the reasonable cost of the air compressor. Such filing shall comply with General Order 96-A.

4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 19, 1986. The following Commissioners approved it:


JOSEPH E. BODOVITZ
Executive Director

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

APPENDIX A

SIERRA KING WATER COMPANY

SUMMARY OF EARNINGS
(Test Year 1986)

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue	\$ 2,112	\$11,040	\$ 2,112	\$11,040	\$ 5,000
Operating Expenses					
Purchased Power	2,100	2,100	2,100	2,100	2,100
Payroll	2,600	2,600	1,120	1,120	1,120
Other O&M Expenses	1,250	1,250	550	550	550
Subtotal	5,950	5,950	3,770	3,770	3,770
Depreciation	750	750	780	780	780
Property Taxes	250	250	250	250	250
Taxes on Income	200	200	200	1,450	200
Total Deductions	7,150	7,150	5,000	6,150	5,000
Net Operating Revenue	(5,038)	3,890	(2,888)	4,790	0
Rate Base					
Average Plant	33,442	33,442	28,740	28,740	28,740
Average Depr. Reserve	14,130	14,130	12,420	12,420	12,420
Net Plant	19,312	19,312	16,320	16,320	16,320
Less: Advances	-	-	-	-	-
Contribution	-	-	-	-	-
Plus: Working Cash	4,000	4,000	770	770	770
Matls. & Suppls.	-	-	-	-	-
Depreciated Rate Base	23,312	23,312	17,090	17,090	17,090
Return on Rate Base	Loss	16.7%	Loss	18.0%	0%

Item	Step Increase	
	Effective April 1, 1987	Effective April 1, 1988
Operating Revenue	\$ 7,720	\$ 7,250
Operating Expenses Excluding Income Taxes	4,800	4,800
Taxes on Income	680	570
Total Operating Expenses	5,480	5,370
Net Operating Revenue	2,240	1,880
Depreciated Rate Base	17,090	17,090
Rate of Return	13.1%	11.0%

APPENDIX B

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

The area known as Tract No. 367, and vicinity, located about 5 miles northeast of Three Rivers, Tulare County.

RATES

	Per Service Connection Per Year		
	Recommended Rate	Effective Apr. 1, 1987	Effective Apr. 1, 1988
For a single-family residential unit, including premises.....	\$227.30 (I)	\$351.00 (I)	\$329.50 (R)

SPECIAL CONDITIONS

1. The above flat rate applies to service connections not larger than one-inch in diameter.
2. The annual flat rate 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 flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's establishing billing periods. (D)
(T)
3. The opening bill for flat rate service shall be the established annual flat rate 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 (1/365th) 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. (T)

APPENDIX C

COMPARISON OF RATES

FLAT RATE SERVICE

	Per Service Connection Per Year		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Single-family residential unit, including premises.....	\$96.00	\$227.30	136.7%
		351.00 ^{2/}	54.4
		329.50 ^{3/}	(6.1)

^{1/} Also adopted.

^{2/} Effective rate, April 1, 1987.

^{3/} Effective rate, April 1, 1988.

ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Sierra King Water Company

Net-to-Gross Multiplier:	1.30
Federal Tax Rates:	15.0%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0.0%
Business License:	0.0
Uncollectible Rates:	0.0

Offset Items Test Year 1985

- Purchased Power (Electric)
 Southern California Edison Company

Total Cost (\$)	\$ 2,100
kWh	27,820
Eff. Sch. Date	6/1/85
\$/kWh used	0.07549
Rate Schedule	PA-1
- Purchased Water: None
- Pump Tax-Replenishment Tax: None
- Payroll and Employee Benefits: \$ 1,120
- Ad Valorem Taxes: \$ 250

Tax Rate	1.0110%
Assessed Value	\$24,726

ADOPTED FLAT RATE SERVICE

Total 22 Customers

APPENDIX D

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ADOPTED TAX CALCULATIONS 1/

:Ln.: :lb.:	Item	: @ 1986 Rates :		: @ 1987 Rates :		: @ 1988 Rates :	
		: State :		: State :		: State :	
		: Tax :	: FIT :	: Tax :	: FIT :	: Tax :	: FIT :
1.	Operating Revenues	\$5,000	\$5,000	\$7,720	\$7,720	\$7,250	\$7,250
2.	O&M Expenses	3,770	3,770	3,770	3,770	3,770	3,770
3.	Taxes Other Than Income	250	250	250	250	250	250
4.	Depreciation	780	780	780	780	780	780
5.	State Tax	-	200	-	280	-	240
6.	Subtotal Deductions	4,800	5,000	4,800	5,080	4,800	5,040
7.	Net Taxable Income for State Tax	200		2,920		2,450	
8.	State Tax	200		280		240	
9.	Total State Tax	200		280		240	
10.	Net Taxable Income for FIT		0		2,640		2,210
11.	Total FIT		0		400		330
12.	Total Income Tax		200		680		570

1/ Corporation

APPENDIX E

TO ALL CUSTOMERS WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A RATE INCREASE BY SIERRA KING WATER COMPANY (SKWC), INC.

Dear Customer:

Sierra King Water Company (SKWC) has requested approval from the Commission to increase your rates for water service by 423%. This would increase the present flat rate charge from \$96.00 to \$480.00 per year.

After considering all the factors presented, the Commission has granted SKWC a 243.3% rate increase. This will increase the flat rate charge from \$96.00 to \$329.50 per customer per year. However, because of the size of this increase, the Commission has spread the increase over three years as follows:

<u>Year Effective</u>	<u>Flat Rate Per Year</u>
1986	\$227.30
1987	351.00
1988	329.50

The Commission has made an analysis of the operations of this utility and believes that a 243.3% increase is justified. The Commission recognizes that this is a large increase. However, SKWC has gone over 11 years without an increase. There are three items that make up this 243.3% increase. These items contribute to the increase as follows: 1) service improvements - 29.0%; 2) higher return on SKWC's investment in the water system - 77.0%; and 3) inflation -137.3%.

Seven individual letters and a petition signed by twenty of SKWC's customers were received by the Commission. The letters complained generally of the amount of the increase requested, low pressures and lack of meters in the water system.

The Commission's staff made a field investigation of SKWC's water system in October, 1985 to observe the operations and to determine the level of service. During the field investigation, the staff interviewed 9 of SKWC's 22 customers. As indicated in the letters to the Commission, these customers were not happy with the size of the rate increase request but were basically satisfied with the water service. Two of these customers did complain about low pressures.

In response to the findings of its staff, and to the complaints of SKWC's customers, the Commission has recommended that SKWC install an air compressor on its 5,000 gallon tank in order to improve pressures and reliability of service.

With respect to the requests by customers for meters, it would cost SKWC about \$4,600 to install meters for its present customers. To recover these costs, SKWC would have to further raise its rates for each customer in excess of \$2.50 per month. The usual reason for metering is to conserve water. In light of the costs to meter, the Commission has determined that there is no economic justification for it at this time because SKWC does not face a water shortage, and in fact has an ample supply of water. However, if a majority of SKWC's

customers still desire metering, and are willing to pay for it, they should write and let me know so that we can examine this further.

We appreciate your writing to us. If anyone wishes further details about the rate increase, please feel free to contact Richard Tom at (415) 557-2572.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch