

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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to Executive Director

RESOLUTION NO. W-3308

EVALUATION & COMPLIANCE DIVISION
BRANCH/SECTION: Water Utilities
DATE: April 2, 1986

Director

Numerical File

Alphabetical File

Accounting Officer

R E S O L U T I O N

PINE FLAT WATER COMPANY (PFWC). ORDER AUTHORIZING A
GENERAL RATE INCREASE PRODUCING \$4,960 OR 37.6%
ADDITIONAL ANNUAL REVENUE.

PFWC, by draft advice letter furnished to the Water Utilities Branch (Branch) on September 15, 1985, requested authority under Section VI of General Order 95-A and Section 454 of the Public Utilities Code to increase rates for water service by \$6,857 or 52%. PFWC estimates that 1985 gross revenue of \$13,188 at present rates would increase to about \$20,045 at proposed rates. The Branch calculates that this would produce a 22% rate of return on PFWC's rate base. PFWC did not calculate and did not ask for a specified rate of return on rate base. The increase in revenues by \$6,857 is based upon a requested specific increase in rates. PFWC currently serves about 210 flat rate customers in the vicinity of California Hot Springs, Tulare County.

The present rates have been in effect since November 17, 1975 pursuant to Resolution W-1840, which authorized a general increase.

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

The significant difference in the estimates of operating expenses are in purchased power and depreciation expense. PFWC's remaining operating expenses consisting of materials, contract work, office expenses, insurance, accounting and legal, management salary and general expense were estimated as a lump sum under the item O&M expense. For ratemaking, the Branch estimated these individual expense items separately. The Branch's separate estimates are based on the latest recorded data, verified current costs of items and PFWC's operating methods for the system. The sum of the Branch's individual expense items is \$6,530 and does not differ appreciably from PFWC's consolidated estimate of \$6,525.

The Branch's estimate of purchased power is lower than PFNC's. PFNC provided no workpapers supporting its estimate. The Branch's estimate is based on the average of the annual kilowatt hours of electrical energy used as determined from PFNC's recorded energy bills over the last five years, and the latest rates.

The Branch's estimate of depreciation expense is lower than PFNC's due to the differences in composite depreciation rates used and plant estimates (discussed later). PFNC assumed a composite rate of 4.41% but did not make a depreciation accrual study. The Branch made a depreciation accrual study for test year 1985 and determined that a composite rate of 3.0% is more appropriate. The Branch believes that the composite depreciation rate of a 4.41% is excessive for ratemaking purposes and notes that typical composite depreciation rates for water utilities range from about 2% to 3%.

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

The Branch's estimate of utility plant is higher than PFNC's. The Branch's estimate is based on a review of recorded data. PFNC's estimate, which is less than recorded 1984 plant, is not supported by workpapers.

The Branch's estimate of depreciation reserve is significantly lower than PFNC's. The Branch used 1984 recorded depreciation reserve and the Branch's estimated 1985 depreciation expense in determining depreciation reserve for test year 1985. PFNC apparently did not consider recorded 1984 depreciation reserve in determining its test year 1985 estimate and did not submit workpapers to its estimate.

PFNC's estimate of working cash allowance is \$850. The Branch recommends no working cash allowance because PFNC collects revenues in advance of providing service, a common practice among flat rate water systems. Working cash is an allowance for the amount of money that a utility furnishes from its own funds for the purpose of enabling it to bridge the gap between the time expenses of rendering utility service are incurred and the time revenues from that service are received.

As stated previously, PFNC's requested increase would result in a 22% rate of return on rate base. This is well 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 PFNC and believes this amount is reasonable.

PFNC 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 December 2, 1985. A total of five letters of protest were received. All complained about the magnitude of the rate increase. One also complained about low pressure within the service area.

The Branch has drafted a letter of reply to all customers who have written to the Commission about this rate increase (Appendix E). It explains the Commission's action and will be mailed after this resolution is signed.

A field investigation of PFWC's system was made on November 11, 1985 by two members of the Branch. Visible portions of the water systems were inspected, customers and company employees were interviewed, and methods of operation reviewed. Pressures were checked at different points throughout the system and, although the range varied considerably, all were within the limits specified by the Commission's General Order 103, Rules Governing Water Service. The Tulare County Department of Health Services (TCHS) has informed the Branch that PFWC's water quality meets State health standards.

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

Consistent with past Commission policy, the percent increase to PFWC's flat and metered rate schedules is approximately equal within the limitations of rounding to the overall increase of 37.6%. Although presently there are no metered connections there is an existing metered rate schedule consisting of a minimum charge with a four-block quantity rate structure. PFWC wishes to retain the option of metering customers, especially wasteful or excessive users. This is reasonable to the Branch. The Branch believes that the existing minimum charge type of rate structure should be retained until enough metered information is available to make a proper rate design in agreement with current Commission policy which calls for a service charge type rate structure. For the typical flat rate residential customer this will mean an increase in the annual bill from \$62.50 to \$86.00. The Branch notes that the \$86.10 annual bill translates into a monthly bill of \$7.17 and is still one of the lowest in California. A comparison of present and the Branch's recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$4,960 or 37.6% which would increase estimated annual revenue from \$13,190 at present rates to \$18,150 at recommended rates contained in Appendix B. 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 (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. The composite depreciation rate of 3% recommended by the Branch is reasonable and should be adopted.

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 Pine Flat Water Company to file an advice letter incorporating the summary of earnings

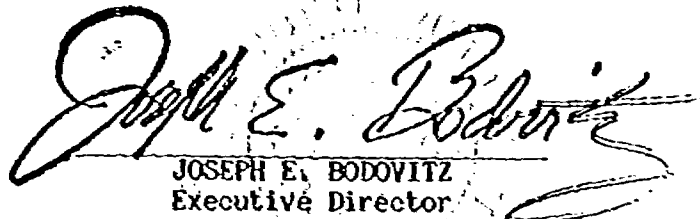
and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel the presently effective rate Schedules Nos. 1 and 2. Such filing shall comply with General Order 95-A.

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

3. For the year 1986, Pine Flat Water Company shall apply a depreciation rate of 3% to the original cost of depreciable plant. Until Commission review indicates otherwise, Pine Flat Water Company shall continue to use this rate.

4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 2, 1986. The following Commissioners approved it:


JOSEPH E. BODOVITZ
Executive Director

DONALD VIAL
President
VICTOR CALVO
PRISCILLA G GREW
FREDERICK R DUDA
Commissioners

APPENDIX A

PINE FLAT WATER COMPANY

SUMMARY OF EARNINGS
(Estimated Year 1985)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue *	\$13,188	\$20,045	\$13,190	\$20,050	\$18,150
<u>Operating Expenses</u>					
Purchased Power	3,175	3,175	2,900	2,900	2,900
Labor	3,300	3,300	3,300	3,300	3,300
Materials	0	0	180	180	180
Contract Work	0	0	750	750	750
O&M Expenses **	6,525	6,525	0	0	0
Office Expenses	0	0	390	390	390
Management Salary	0	0	780	780	780
Insurance	0	0	2,590	2,590	2,590
Accounting, Legal	0	0	350	350	350
General Expenses	0	0	780	780	780
Vehicle Expense	0	0	710	710	710
Total Expenses	\$13,000	\$13,000	\$12,730	\$12,730	\$12,730
Depreciation	2,709	2,709	1,900	1,900	1,900
Property Taxes	380	380	380	380	380
Income Taxes	200	200	200	1,130	690
Total Deductions	\$16,289	\$16,289	\$15,210	\$16,140	\$15,700
Net Revenue	(\$ 3,101)	\$ 3,756	(\$ 2,020)	\$ 3,910	\$ 2,450
<u>Aver. Rate Base</u>					
Average Plant	63,848	63,848	65,350	65,350	65,350
Depr. Reserve	48,145	48,145	43,440	43,440	43,440
Net Plant	15,703	15,703	21,910	21,910	21,910
Plus: Working Cash	850	850	0	0	0
Plus: Mat'ls. & Suppl.	350	350	350	350	350
Rate Base	\$16,903	\$16,903	\$22,260	\$22,260	\$22,260
Rate of Return	Loss	22.20%	Loss	17.56%	11.00%

* Difference at present and requested rates is due to rounding.

** Lump sum includes Material, Contract Work, Office Expenses, Insurance, Accounting & Legal, General Expense and Vehicle Expense.

APPENDIX B
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Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community known as Pine Flat, and vicinity, located approximately two miles southeast of California Hots Springs, Tulare County.

RATES

Monthly Quantity Rates:	Per Meter Per Month
First 500 cu.ft. or less	5.70 (I)
Next 1,500 cu.ft., per 100 cu.ft.	0.69
Next 3,000 cu.ft., per 100 cu.ft.	0.58
Over 5,000 cu.ft., per 100 cu.ft.	0.43 (I)

Annual Minimum Charges:	Per Meter Per Year
For 5/8 x 3/4-inch meter	\$ 68.40 (I)
For 3/4-inch meter	79.10
For 1-inch meter	120.40
For 1-1/2-inch meter	155.00
For 2-inch meter	241.00 (I)

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

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1, and is due in advance. A customer may pay the annual minimum charge in equal installments on or before January 1, and July 1.
2. Charges for water used in excess of the month allowance under the annual minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative monthly consumption basis.

APPENDIX B
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ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

The unincorporated community known as Pine Flat, and vicinity, located approximately two miles southeast of California Hot Springs, Tulare County.

RATES

Per Meter Per Year

For a residence or business establishment,
including premises, served from each:

3/4-inch service connection	\$ 86.00	(I)
1-inch service connection	129.00	!
1-1/2-inch service connection	172.00	!
2-inch service connection	258.00	(I)

SPECIAL CONDITIONS

1. The above rates apply to service during the 12-month period commencing January 1, and are due in advance. A customer may pay the yearly charge in equal installments on or before January 1 and July 1.
2. Meters may be installed at option of utility for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. 1, Annual General Metered Service.
3. All service not covered by the above classifications will be furnished only on a metered basis.

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

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

<u>METERED SERVICE</u>	<u>Per Meter or Service</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
Monthly Quantity Rates:			
First 500 cu.ft., or less	\$ 4.13	\$ 5.70	38.0
Next 1,500 cu.ft., per 100 cu.ft. .	0.50	0.69	38.0
Next 3,000 cu.ft., per 100 cu.ft. .	0.42	0.58	38.1
Over 5,000 cu.ft., per 100 cu.ft. .	0.31	0.43	38.7

Annual Minimum Charges:

For 5/8 x 3/4-inch meter	\$49.60	\$ 68.40	37.9
For 3/4-inch meter	57.50	72.10	37.6
For 1-inch meter	87.50	120.40	37.6
For 1-1/2-inch meter	112.50	155.00	37.8
For 2-inch meter	175.00	241.00	37.7

FLAT RATE SERVICE

Annual Flat Rates:

3/4-inch service connection	62.50	86.00	37.6
1-inch service connection	93.75	129.00	37.6
1-1/2-inch service connection	125.00	172.00	37.6
2-inch service connection	187.50	258.00	37.6

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

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 4.13	\$ 5.70	\$ 1.57	38.0
3	4.13	5.70	1.57	38.0
5	4.13	5.70	1.57	38.0
10	6.63	9.15	2.52	38.0
20	11.63	16.05	4.42	38.0
30	15.83	21.85	6.02	38.0
40	20.03	27.65	7.62	38.0
50	24.23	33.45	9.22	38.1
100	39.73	54.95	15.22	38.3

APPENDIX D
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ADOPTED QUANTITIES
(1985 Test Year)

Name of Company: Pine Flat Water Company

Net-to-Gross Multiplier:	1.3014
Federal Tax Rates:	15.0%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	1.0%
Business License:	0.0
Uncollectible Rates:	0.0

Expenses Test Year 1985

1. Purchased Power (Electric)	
Southern California Edison Company	
Total Cost (\$)	\$2,900
kWh	35,540
Eff. Sch. Date	5/1/85
\$/kWh used	0.07549
Rate Schedule	PA-1
2. Purchased Water:	None
3. Pump Tax-Replenishment Tax:	None
4. Payroll and Employee Benefits:	
Operation and Maintenance	\$3,300
Administrative & General	<u>780</u>
Total	\$4,080
5. Ad Valorem Taxes:	\$380
Tax Rate	1.0014%
Assessed Value	\$37,950

Metered Services None

Flat Rate Services

3/4"	205
1"	2
1-1/2"	2
2"	<u>0</u>
Total	209

APPENDIX D
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ADOPTED TAX CALCULATIONS

<u>Line No.</u>	<u>Item</u>	1985 Adopted Rates	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$18,150	\$18,150
2.	Operating Expenses	12,730	12,730
3.	Taxes Other Than Income	380	380
4.	Tax Depreciation	1,900	1,900
5.	Interest	165	165
6.	State Income Tax	-	285
7.	Sub-total Deduction	15,175	15,460
8.	State Taxable Income	2,975	
9.	State Income Tax	285	-
10.	Federal Table Income	-	2,690
11.	Federal Income Tax	-	405
12.	Total Income Tax	285	405

(END OF APPENDIX D)

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 52% RATE INCREASE BY PINE FLAT WATER COMPANY (PFWC).

Dear Customer:

After considering all the factors presented, the Commission has authorized Pine Flat Water Company a general rate increase producing 37.6% additional revenue. For a typical residential customer this will mean an increase in the annual bill from \$62.50 to \$86.00.

The Commission is aware that the increase recommended is large. However, this utility has gone over ten years without any rate increase. The major factors affecting the rate increase, higher interest rates, higher insurance rates and inflation are not under the Commission's control. All these factors must be considered in setting rates, if the utility is to remain viable and provide you with adequate service.

Five customers wrote to the Commission protesting the magnitude of the rate increase. One customer also complained about low water pressure. On November 11, 1985 a field investigation was made by two members of the Commission's 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 further questions about this increase please contact R. Bennett at (213) 620-4656.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch