

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for:

✓
Orig. and copy
to Executive Director

RESOLUTION NO. W-3309

EVALUATION & COMPLIANCE DIVISION
BRANCH/SECTION: Water Utilities
DATE: April 16, 1986

Director

Numerical File

Alphabetical File

Accounting Officer

R E S O L U T I O N

JOHNSON PARK WATER WORKS (JPW). ORDER AUTHORIZING
A GENERAL RATE INCREASE PRODUCING \$15,402 OR 39.47%
ADDITIONAL ANNUAL REVENUE.

JPW, by draft advice letter furnished to the Water Utilities Branch (Branch) on October 24, 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 \$34,982 or 89.66%. JPW estimates that 1985 gross revenue of \$39,018 at present rates would increase to \$74,000 at proposed rates and would produce a rate of return of 43.08% on rate base. JPW currently serves about 330 metered customers in the vicinity of Johnson Park Subdivision, Shasta County.

The present rates have been in effect since February 1, 1979 pursuant to Resolution W-2470, dated January 16, 1979 which authorized a general rate increase.

The Branch made an independent analysis of JPW's summary of earnings. Appendix A shows JPW'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, general expense and vehicle expense.

The Branch's estimate of purchased power is lower than JPW's due to the Branch's use of power rates effective January 1, 1986 which are lower than the rates in effect when JPW prepared its estimate.

The Branch's estimate of insurance is higher than JPW's. The difference is due to JPW inadvertently including the insurance expense in its general expense estimate.

The Branch's estimate of general expense is lower than JPW's. The difference is due to JPW including insurance expense and property taxes in its general expense estimate. The Branch reclassified these expenses to their proper accounts.

JPW's vehicle expense estimate is \$2,660 versus the Branch's estimate of \$1,710. JPW estimated an annual mileage use of 15,000 miles while the Branch estimated 160 miles per week or approximately 8,340 miles annually. The Branch's estimate is based on the size of the service area, approximately four square miles and the proximity of the nearest available materials and supply sources, which are about 60 miles away. The Branch used a mileage allowance of \$0.205 per mile. This allowance provides for all operating and maintenance expenses at present day costs. It is the same rate allowed by the Internal Revenue Service and for ratemaking is considered by the Branch to be reasonable in this case. JPW did not provide a detailed breakdown of its mileage or expense estimate.

The difference in the rate base is due to the difference in working cash estimates. The Branch's estimate of working cash is much higher than JPW's and is based on the Commission's Standard Practice U-16, Determination of Working Cash Allowance. JPW provided no workpapers to support its estimate, which does not reflect the proper level for ratemaking.

JPW's summary of earnings submitted with its rate increase request shows a rate of return on rate base of 43.08%. 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 JPW and believes this amount is reasonable.

JPW 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 October 28, 1985. The notice contained an arithmetical error which indicated a 100% increase. A total of six letters and a petition with 17 signatures were received in response. One customer supported the increase, four letters and the petition protested the magnitude of the increase and one complained about inadequate pressure during the summer daytime hours.

A field investigation of JPW's system was made on October 8, 1985 by a member of the Branch. At that time, water pressure throughout the system including at the residence of the customer complaining of low pressure, was within the range prescribed by the Commission's General Order 103, Rules Governing Water Service. The Branch concludes that service is satisfactory. There are no outstanding Commission orders requiring system improvements.

The Branch has drafted a letter of reply to the customers who wrote about this rate increase. It explains the Commission's action and will be mailed after the resolution is signed. The draft letter is attached as Appendix E.

JPW's present rates consist of a service charge and one quantity rate. The quantity rate block has been converted to two blocks consistent with current Commission model rate structure with a 300-cubic feet first block and inverted rate for consumption above that amount. At the Branch's recommended rates, typical residential customer will see an increase in the monthly bill from \$9.69 to \$13.40. Appendix C shows a comparison of the present and the Branch's recommended rates.

The Branch recommends that the Commission authorize an increase of \$15,402 or 39.47% which would increase estimated annual revenue from \$39,018 at present rates to \$54,420 at recommended rates contained in Appendix B.

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.

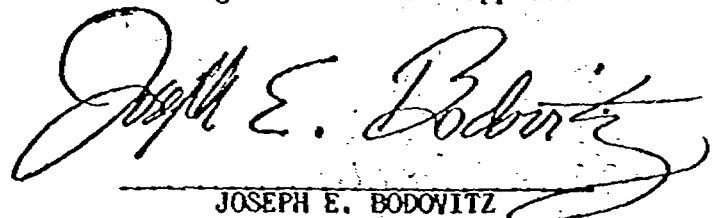
THE COMMISSION FINDS that the increased rates hereby authorized are justified and that the present rates are, for the future, unjust and unreasonable.

IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for Johnson Park Water Works to file an advice letter incorporating the Summary of Earnings and revised rate schedule 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. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 16, 1986. The following Commissioners approved it:

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


JOSEPH E. BODOVITZ
Executive Director

APPENDIX A

JOHNSON PARK WATER WORKS

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue	\$39,018	\$74,000	\$39,018	\$74,000	\$54,420
Operating Expenses					
Purchased Power	9,674	9,674	9,100	9,100	9,100
Materials	2,484	2,484	2,484	2,484	2,484
Management Salary	20,000	20,000	20,000	20,000	20,000
Office Supplies	1,822	1,822	1,822	1,822	1,822
Insurance	0	0	2,230	2,230	2,230
Accounting & Legal	785	785	785	785	785
General Expense	5,205	5,205	1,560	1,560	1,560
Vehicle Expense	2,660	2,660	1,710	1,710	1,710
Total Oper. Expenses	\$42,630	\$42,630	\$39,691	\$39,691	\$39,691
Depreciation	5,880	5,880	5,880	5,880	5,880
Property Taxes	1,419	1,419	1,419	1,419	1,419
Income Taxes	0	0	0	5,970	730
Total Deductions	\$49,929	\$49,929	\$46,990	\$52,960	\$47,720
Net Operating Revenue	(10,911)	24,071	(7,972)	21,040	6,700
Rate Base					
Average Plant	159,710	159,710	159,710	159,710	159,710
Avg. Depreciation Res.	107,300	107,300	107,300	107,300	107,300
Net Plant	52,410	52,410	52,410	52,410	52,410
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	800	800	5,860	5,860	5,860
Mat'ls & Supply	2,660	2,660	2,660	2,660	2,660
Rate Base	55,870	55,870	60,930	60,930	60,930
Rate of Return	Loss	43.08%	Loss	34.53%	11.00%

(Red Figures)

APPENDIX B
Schedule No. 1
METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Johnson Park and vicinity, Shasta County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 4.65	(I)
For 3/4-inch meter	5.60	
For 1-inch meter	7.70	
For 1-1/2-inch meter	10.50	
For 2-inch meter	13.95	(I)

Quantity Rates

First 300 cu.ft., per 100 cu.ft.	0.49	(I)
Over 300 cu.ft., per 100 cu.ft.	0.56	(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 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 Per Month</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.35	\$ 4.65
For 3/4-inch meter	4.00	5.60
For 1-inch meter	5.50	7.70
For 1-1/2-inch meter	7.50	10.50
For 2-inch meter	10.00	13.95
Quantity Rates:		
Each 100 cu.ft.	0.396	
First 300 cu.ft., per 100 cu.ft.		0.49
Over 300 cu.ft., per 100 cu.ft.		0.56

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	\$ 3.35	\$ 4.65	\$ 1.30	38.81
3	4.54	6.12	1.58	34.80
10	7.31	10.04	2.73	37.35
15	9.29	12.84	3.55	38.21
16 (Avg.)	9.69	13.40	3.71	38.29
20	11.27	15.64	4.37	38.78
50	23.15	32.44	9.29	40.13
100	42.95	60.44	17.49	40.72
150	62.75	88.44	25.69	40.94
200	82.55	116.44	33.89	41.05
300	122.15	172.44	50.29	41.17
400	161.75	228.44	66.69	41.23
500	201.35	284.44	83.09	41.27

APPENDIX D

Page 1

ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Johnson Park Water Works

Net-to-Gross Multiplier:	1.20
Federal Tax Rates:	15%
State Tax Rate:	2%
Local Franchise Tax Rate:	0
Business License:	0
Uncollectible Rates:	0

Expenses Test Year 1986

1. Purchased Power:	
<u>Pacific Gas and Electric</u>	
Total Cost (\$)	\$ 9,100
Rate Schedule	A-12
Effective Date	1/1/86
kWh:	105,880
\$/kWh	0.08589
2. Purchased Water:	None
3. Pump Tax-Replenishment Tax:	None
4. Payroll and Employee Benefits:	
Management Salary	\$20,000
5. Ad Valorem Taxes:	\$1,419
Tax Rate	1.0542%
Assessed Value	\$134,604

Service Connections

1. Meter Size	
5/8 x 3/4"	317
3/4"	4
1"	2
1-1/2"	7
2"	0
Total	330

2. Metered Water Sales Used to Design Rates:

	<u>Range - ccf</u>	<u>1986</u> <u>Usage - ccf</u>
Block 1	0-3 ccf	10,507
Block 2	Over 3 ccf	53,947
Total		64,454

APPENDIX D
Page 2

ADOPTED TAX CALCULATIONS

<u>Line No.</u>	<u>Item</u>	<u>1986 Adopted Rates</u>	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$54,420	\$54,420
2.	Operating Expenses	39,691	39,691
3.	Taxes Other Than Income	1,419	1,419
4.	Tax Depreciation	5,880	5,880
5.	Interest	0	0
6.	State Income Tax	-	80
7.	Sub-total Deduction	46,990	47,070
8.	State Taxable Income	7,430	-
9.	State Income Tax	80	-
10.	Federal Table Income	-	7,350
11.	Federal Income Tax	-	650
12.	Total Income Tax	80	730

(END OF APPENDIX D)

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 100% RATE INCREASE BY JOHNSON PARK WATER WORKS

Dear Customer:

In October 1985, Johnson Park Water Works notified its customers that it was requesting a 100% increase in water rates. This notice was in error. The actual increase sought was 89.66%. After considering all factors presented, the Commission has authorized an increase of 39.47%. For the typical customer this will mean an increase in the monthly bill from \$9.69 to \$13.40.

A notice of the proposed rate increase was mailed to each customer on October 28, 1985. A total of six letters and a petition with 17 signatures protesting the increase were received in response. One customer supported the increase, four letters and the petition protested the magnitude of the increase and one complained about inadequate pressure during the summer daytime hours.

The Commission is aware that the percentage increase granted is large. However, this utility has been operating at a loss for many years. The rate increase granted in 1979 was not sufficient to pay for the operating expenses at that time.

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.

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