

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Orig. and copy  
to Executive Director

RESOLUTION NO. W-3314

EVALUATION & COMPLIANCE DIVISION  
 BRANCH/SECTION: Water Utilities  
 DATE: May 7, 1986

Director  
 Numerical File  
 Alphabetical File  
 Accounting Officer

R E S O L U T I O N

LINDALE WATER COMPANY (LWC). ORDER AUTHORIZING A  
 GENERAL RATE INCREASE PRODUCING \$16,712 OR 11.7%  
 ADDITIONAL REVENUE.

LWC, by draft advice letter furnished to the Water Utilities Branch (Branch) on September 26, 1985, requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities (PU) Code to increase rates for water service by \$25,614 or 17.9%. LWC estimates that 1986 gross revenues of \$142,278 at present rates would increase to about \$168,342 at proposed rates and the rate of return on rate base would increase from a 2.12% to 11.46%. LWC serves about 162 metered and 1,060 flat rate customers in its service area located near the city of Porterville, Tulare County.

The present rates became effective on September 2, 1983 pursuant to Resolution No. W-3113 which authorized an offset increase for payroll. The last general rate increase became effective on March 17, 1981 pursuant to Resolution No. W-2804.

The Branch made an independent analysis of LWC's summary of earnings. Appendix A shows LWC's and the Branch's estimates of the summary of earnings at present, requested and adopted rates for test year 1986. Appendix A shows differences in operating expenses.

The differences in estimates of operating expenses are in purchased power, materials and supplies, contract work, temporary office help, payroll and payroll taxes.

LWC's estimate of purchased power for test year 1986 is \$39,872 versus the Branch's estimate of \$37,400. The difference is due to the Branch's lower estimate of water consumption for flat rate customers. LWC's estimate is based on recorded consumption data for the year 1985. The Branch's estimate is based on an average of recorded data for 1984 and 1985. The Branch notes that 1984 recorded consumption was higher than the past several years and believes

that its estimate, which is based on an average of 1984 and 1985 recorded data, more closely coincides with the historical consumption pattern of LWC's flat rate customers.

The difference in the estimates of materials and supplies is due to different methods of estimating. LWC's estimate of \$1,019 is based on recorded data for 1985. The Branch's estimate of \$540 is based on the average of recorded expenses for three years, 1983 through 1985, adjusted for inflation using non-labor escalation factors found reasonable by the Research Branch of the Evaluation and Compliance Division (ECD). LWC's recorded materials and supplies have varied significantly over the last several years. For this reason, the Branch believes its use of three years data provides a more reliable estimate than LWC's, which is based on one year.

The Branch's estimate of contract work is \$1,840 compared to LWC's estimate of \$2,731. The difference results from the Branch's three-year amortization of nonrecurring expenses related to major repairs on a large water main (pipe) which broke. The three-year amortization period relates to the three-year rate case cycle for water utilities. LWC's estimate assumes that this expense will be recovered in one year. The Branch's amortization of this nonrecurring expense over the rate case cycle is consistent with past Commission decisions in this area.

LWC in its estimate of operating expenses included an amount of \$755 for temporary office help. The Branch believes that this expense is already included as part of the new position for part-time help, which is addressed below in the discussion on payroll estimates.

The Branch's estimate of payroll is lower than LWC's. For its 1986 estimate, LWC increased total 1985 recorded payroll for existing positions by 10% and added a new position for part-time help at \$1,800 per year. The Branch estimated 1986 payroll by escalating total recorded 1985 payroll by 3.2% and adding the new position at \$1,800 per year. The Branch believes that a 10% salary increase is excessive at this time of low inflation. The percentage increase used by the Branch was found reasonable by ECD's Research Branch. The Branch believes the cost related to the new part-time position proposed by LWC for 1986 is reasonable and that the position is necessary as a back up for the operation of the utility should present personnel be sick or wish to take vacation.

The Branch's estimate of payroll taxes is lower than LWC's because of the Branch's lower payroll estimates.

LWC's summary of earnings submitted with its rate increase request shows a rate of return on rate base of 11.46%. ECD's Financial Branch has reviewed LWC's capitalization and has recommended a rate of return of 11.0%.

LWC was informed about the Branch's differing view on operating expenses 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 14, 1986. Three letters of protest were received. All were

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

The Branch conducted a field investigation of LWC's service area and plant facilities in February, 1936. Plant facilities inspected were in good condition. Water pressures taken at different points in the system were within the limits specified in the Commission's General Order No. 103, Rules Governing Water Service. According to the Tulare County Department of Health Services there are no current water quality problems.

The percent increase to LWC's flat and metered customers is approximately equal to the overall increase of 11.7%. The monthly bill for a typical flat rate customer will increase from \$8.65 to \$9.68 or \$1.03. LWC's metered rate structure conforms to the Commission's model rate structure of a service charge, a 300 cubic foot first block and an inverted tail block. For a typical metered customer, the monthly bill will increase from \$8.50 to \$9.56 or \$1.06. A comparison of present and Branch recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$16,712 or 11.7% which would increase estimated annual revenue from \$142,728 at present rates to \$159,440 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 recommendations are reasonable and should be adopted.

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

IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for Lindale Water Company to file an advice letter incorporating the Summary of Earnings and the 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 2R. Such filing shall comply with General Order 96-A.
2. The effective date of the revised rate 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 May 7, 1986. The following Commissioners approved it:

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

Howard A. Saracohn  
Acting Executive Director

APPENDIX A

LINDALE WATER COMPANY

SUMMARY OF EARNINGS  
(Estimated Year 1986)

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b>Operating Revenue</b>					
Metered Revenue	\$ 28,285	\$ 32,615	\$ 28,285	\$ 32,615	\$ 31,600
Flat Rate Revenue	112,645	133,927	112,643	133,927	126,040
Other Revenue	1,800	1,800	1,800	1,800	1,800
<b>Total Revenues</b>	<b>142,728</b>	<b>168,342</b>	<b>142,728</b>	<b>168,342</b>	<b>159,440</b>
<b>Operating Expenses</b>					
Purchased Power	39,872	39,872	37,400	37,400	37,400
Materials and Supplies	1,019	1,019	540	540	540
Contract Work	2,731	2,731	1,840	1,840	1,840
Temporary Off. Help	755	755	0	0	0
Payroll	47,600	47,600	44,750	44,750	44,750
Office Supplies	4,993	4,993	4,993	4,993	4,993
Insurance	1,267	1,267	1,267	1,267	1,267
Employee Benefits	2,850	2,850	2,850	2,850	2,850
General Expense	5,690	5,690	5,690	5,690	5,690
Vehicle Expense	2,864	2,864	2,864	2,864	2,864
Office Rental	3,900	3,900	3,900	3,900	3,900
<b>Total Expenses</b>	<b>113,541</b>	<b>113,541</b>	<b>106,094</b>	<b>106,094</b>	<b>106,094</b>
Depreciation	15,107	15,107	15,107	15,107	15,107
Payroll Tax	3,735	3,735	3,530	3,530	3,530
Property Tax	4,661	4,661	4,661	4,661	4,661
Taxes on Income	460	3,060	1,280	3,739	2,885
<b>Total Deductions</b>	<b>137,504</b>	<b>140,104</b>	<b>130,672</b>	<b>133,131</b>	<b>132,277</b>
<b>Net Revenue</b>	<b>5,225</b>	<b>28,238</b>	<b>12,056</b>	<b>35,211</b>	<b>27,163</b>
<b>Average Rate Base</b>					
Average Plant	685,180	685,180	685,180	685,180	685,180
Avg. Depr. Res.	146,090	146,090	146,090	146,090	146,090
Net Plant	539,090	539,090	539,090	539,090	539,090
Less: Advances	282,094	282,094	282,094	282,094	282,094
Contributions	12,969	12,969	12,969	12,969	12,969
Plus: Working Cash	197	197	197	197	197
Matls. & Supplies	2,120	2,120	2,120	2,120	2,120
<b>Rate Base</b>	<b>246,344</b>	<b>246,344</b>	<b>246,344</b>	<b>246,344</b>	<b>246,344</b>
<b>Rate of Return</b>	<b>2.12%</b>	<b>11.46%</b>	<b>4.9%</b>	<b>14.3%</b>	<b>11.0%</b>

APPENDIX B

Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 264, and vicinity, located approximately one mile west of Porterville, Tulare County.

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>	
First 300 cu.ft., per 100 cu.ft.....	\$ .23	(I)
Over 300 cu.ft., per 100 cu.ft.....	.34	(I)

Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 4.45	(I)
For 3/4-inch meter.....	5.00	
For 1-inch meter.....	7.00	
For 1-1/2-inch meter.....	9.50	
For 2-inch meter.....	11.90	
For 3-inch meter.....	22.30	
For 4-inch meter.....	30.30	

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  
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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat residential water service.

TERRITORY

Tract No. 264, and vicinity, located approximately one mile west of Porterville, Tulare County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single-family residential unit including premises not exceeding 10,000 sq.ft. in area.....	\$ 9.68	(I)
a. For each additional single-family residential unit on the same premises and served from the same connection...	7.00	
b. For each 100 sq.ft. of premises in excess of 10,000 sq.ft.....	0.06	(I)

SPECIAL CONDITIONS

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

APPENDIX C

Page 1

COMPARISON OF RATES

METERED SERVICE

Quantity Rates

	Per Meter Per Month	
	<u>Present Rates</u>	<u>Recommended Rates</u>
First 300 cu.ft., per 100 cu.ft.....	\$ 0.20	\$ 0.23
Over 300 cu.ft., per 100 cu.ft.....	0.30	0.34

Service Charge

For 5/8 x 3/4-inch meter.....	\$ 4.00	\$ 4.45
For 3/4-inch meter.....	4.40	5.00
For 1-inch meter.....	6.00	7.00
For 1-1/2-inch meter.....	8.00	9.50
For 2-inch meter.....	10.65	11.90
For 3-inch meter.....	19.95	22.30
For 4-inch meter.....	27.15	30.30

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.

A comparison of typical metered residential monthly customer bills at present and Branch's recommended rates 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	\$ 4.00	\$ 4.45	\$ 0.45	11.2
3	4.60	5.14	0.54	11.7
5	5.20	5.82	0.62	11.9
10	6.70	7.52	0.82	12.2
25	11.20	12.62	1.42	12.7
50	18.70	21.12	2.42	12.9



APPENDIX C  
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Flat Rate Service

	Per Service Connection Per Month		<u>Amount Increase</u>	<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>		
For a single-family residential unit, including premises not exceeding 10,000 sq.ft. in area.....	\$8.65	\$9.68	\$1.03	11.9
For each additional single-family residential unit on the same premises and served from the same connection.....	6.70	7.00	.30	4.5
For each 100 sq.ft. of premises in excess of 10,000 sq.ft.....	0.05	0.06	.01	20.0



APPENDIX D  
Page 2

2. Adopted Metered Services

5/8 x 3/4-inch	90
3/4	0
1	57
1-1/2	7
2	7
3	1
4	0
6	0
Total	<u>162</u>

3. Metered Water Sales Used to Design Rates

	<u>Range Ccf</u>	<u>Usage Ccf</u>
Block 1	0 - 3	5,724
Block 2	> 3	<u>54,778</u>
		60,502

ADOPTED TAX CALCULATIONS

: Line: : No.:	Item	: 1986 :	
		: CCFI :	: FIT* :
1.	Operating Revenues	\$159,440	\$159,440
2.	Operating Expenses	106,094	106,094
3.	Taxes Other Than Income	8,191	8,191
4.	Tax Depreciation	15,107	15,107
5.	Interest	-	-
6.	State Income Tax	-	<u>2,885</u>
7.	Subtotal Deduction	129,392	132,277
8.	State Taxable Income	30,048	
9.	State Income Tax (9.6%)	2,885	
10.	Federal Taxable Income	-	27,163
11.	Federal Income Tax (15%, 18%)	-	<u>4,139</u>

\* The utility has accumulated a surplus of unused ITC credit (\$32,214, as of 12/85) and estimates that its actual IRS tax bill will be zero in 1986. The utility has proposed that no federal tax be included in rates for ratemaking. Since this is to the benefit of the ratepayer, the Branch has no objection. Ordinarily, the \$4,139 in FIT, adjusted for a percentage of the allowable ITC credits, would be included for ratemaking.

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 18% RATE INCREASE BY LINDALE WATER COMPANY:

Dear Customer:

After considering all the factors presented, the Commission has authorized Lindale Water Company (LWC) a general rate increase of 11.7%. The major factors affecting the rate increase are inflation and increased operating expenses associated with higher electric power bills for pumping water, payroll, office supplies and system maintenance. The bi-monthly bill for the typical flat rate customer will increase from \$17.30 to \$19.36 or \$2.06. The average metered customer will see an increase in the bi-monthly bill from \$17.00 to \$19.12 or \$2.12.

Three letters protesting the magnitude of the rate increase were received by the Commission. One of these letters also complained about inadequate water pressure. The Commission staff conducted a field investigation of LWC's service area and plant facilities and found their plant facilities were in good condition. Also, water pressure readings taken at different points in the system were within the limits specified in the Commission's General Order No. 103, Rules Governing Water Service.

If anyone wishes further details on the rate increase, please feel free to contact Richard Finnstrom at (213) 620-2588.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch