

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 to Executive Director

RESOLUTION NO. W-3320

EVALUATION & COMPLIANCE DIVISION
 BRANCH/SECTION: Water Utilities
 DATE: June 25, 1986

 Director

 Numerical File

 Alphabetical File

 Accounting Officer

RESOLUTION

GERBER WATER WORKS, INC. (GWW). ORDER AUTHORIZING
 A GENERAL RATE INCREASE PRODUCING \$10,660 OR 29.4%
 ADDITIONAL ANNUAL REVENUE.

GWW, by draft advice letter received by the Water Utilities Branch (Branch) on October 31, 1985, and revised on December 20, 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 to produce additional gross annual revenue of \$10,562 or 30.7% in 1986 and an attrition allowance of \$1,805 or 4.02% in 1987. GWW estimates that 1986 gross revenue of \$34,370 at present rates would increase to \$44,932 at proposed rates and to \$46,737 in 1987. This would result in a rate of return on rate base of 11.5% for both years. GWW currently serves about 20 metered and 268 flat rate customers in Gerber, Tehama County.

The present rates have been in effect since January 1, 1984, pursuant to Decision (D.) 83-08-055, dated August 17, 1983, which authorized a general rate increase.

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

The Branch's estimate of operating revenue at current and proposed rates is higher than GWW's. The difference in the estimates is due to different estimates of flat rate customers and water consumption for metered customers. The Branch's estimate of operating revenue is higher than GWW's because GWW inadvertently understated its number of flat rate customers. For metered revenue, GWW based its estimates on the 1984 recorded consumption while the Branch used the average water consumption for the recorded period 1983-1985. GWW's recorded water sales for metered customers have fluctuated in the last several years and 1984 was recorded as a low use year. The Branch believes that the use of three years of data provides a broader base for more reliable estimates.

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

The difference in the estimates of purchased power results from the Branch's use of the latest power rates effective January 1, 1986, which are higher than the rates in effect when GWW prepared its estimate.

The Branch's estimate of depreciation expense for the test year is lower than GWW's and is due to the Branch excluding from its estimate certain planned additions in plant explained below.

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

The difference in plant estimates is due to the Branch's exclusion of \$5,500 from its estimate for plant additions (mostly mains) proposed by GWW to improve its system. The need for the improvements were not adequately detailed in GWW workpapers nor explained upon questioning by the Branch. The proposed plant additions are not related to any California Department of Health Services (DHS) orders to improve water quality; or Commission orders to improve service. According to DHS there are no water quality problems; and based on its review, the Branch concludes that the existing water service is satisfactory. The Branch recommends against any amount in rates for GWW's proposal at this time and notes that there are adequate provisions (e.g. advice letter offsets) in the Commission's rate-making processes to allow GWW to recover in rates the reasonable costs of service improvements which can be justified.

The Branch's estimate of depreciation reserve is lower than GWW's. This results from the Branch's lower estimate of plant as noted above.

The Branch's estimate of working cash is higher than GWW's. This is due to the differences in estimates of operating revenues and operating expenses.

GWW requests a rate of return of 11.5% on rate base for the test year 1986 and an operational attrition allowance for 1987 sufficient to maintain that rate of return. The requested rate of return 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 GWW and believes this amount is reasonable.

The operational attrition allowance is in the form of a step rate increase and is to compensate GWW for the anticipated drop in the return on rate base between the years 1986 and 1987 due to inflation-sensitive operating expenses rising faster than operating revenues. The attrition allowance needed to maintain the Branch's recommended 11% return on rate base is minor (less than 1%). The Branch attributes this low attrition to current moderate trends in inflation and the growth in GWW's customers. This customer growth allows for increased economies of scale which offset the inflation related attrition. Due to the negligible amount of attrition, the Branch believes that no attrition allowance should be authorized.

GWW was informed about the Branch's differing views of revenues, expenses, rate base, and rate of return and accepts the Branch's estimates.

GW mailed a notice regarding the proposed rate increase to each customer on January 1, 1986. No protest letters were received by the Branch.

GW's water supply is obtained from three deep wells, two of which are currently in use and the other used as a standby for emergency purposes. According to DHS, the water system has ample water supply and therefore, a water conservation program is not needed.

At Branch recommended rates, monthly bills for a typical flat rate customer with a residential lot of 7,500 square feet or less will increase from \$9.50 to \$12.30 which is 29.4%. GW's rates for metered customers conform to the Commission's model rate structure of a service charge, a 300 cubic foot first block and an inverted tail block. Monthly bills for an average metered customer will increase from \$13.70 to \$17.85 which is 30.1%. A higher percentage increase (38.1%) was assigned to the metered rates service charge in recognition of the higher fixed cost of providing metered service. A comparison of present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$10,660 or 29.4% in 1986, which would increase the estimated annual gross revenue of \$36,255 at present rates to \$46,915 at recommended rates contained in Appendix B. This increase will provide an 11.0% rate of return on rate base. The Branch recommends no operational attrition allowance for 1987.

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 authorized.
- c. The quantities (attached as Appendix D) used to develop the Branch's recommended summary of earnings should be adopted.
- d. No operational attrition allowance should be allowed for 1987.

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 Gerber Water Works 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 to cancel the presently effective rate Schedules Nos. 1 and 2. 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 June 25, 1986. The following Commissioners approved it:



VICTOR R. WEISSER
Executive Director

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

APPENDIX A

Gerber Water Works, Inc.

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	Utility Estimated		Water Utilities Branch Estimated		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
Operating Revenues					
Flat	\$31,090	\$40,652	\$32,855	\$43,675	\$42,485
Metered	3,280	4,280	3,400	4,497	4,430
Total Revenues	<u>34,370</u>	<u>44,932</u>	<u>36,255</u>	<u>48,172</u>	<u>46,915</u>
Operating Expenses					
Purchased Power	8,110	8,110	10,730	10,730	10,730
Payroll	16,595	16,595	16,595	16,595	16,595
Materials	1,035	1,035	1,035	1,035	1,035
Contract Work	1,280	1,280	1,280	1,280	1,280
Office Supplies	2,680	2,680	2,680	2,680	2,680
Insurance	2,660	2,660	2,660	2,660	2,660
Accounting & Legal	1,240	1,240	1,240	1,240	1,240
General Expense	1,885	1,885	1,885	1,885	1,885
Vehicle Expense	930	930	930	930	930
Office Rent	600	600	600	600	600
Subtotal	<u>37,015</u>	<u>37,015</u>	<u>39,635</u>	<u>39,635</u>	<u>39,635</u>
Depreciation Expense	1,260	1,260	1,170	1,170	1,170
Property Taxes	1,560	1,560	1,560	1,560	1,560
Payroll Taxes	1,020	1,020	1,020	1,020	1,020
Income Taxes	200	200	200	200	200
Total Deductions	<u>41,055</u>	<u>41,055</u>	<u>43,585</u>	<u>43,585</u>	<u>43,585</u>
Net Revenue	(6,685)	3,877	(7,330)	4,587	3,330
Rate Base					
Average Plant	55,740	55,740	51,810	51,810	51,810
Average Depr. Reserve	24,140	24,140	23,340	23,340	23,340
Net Plant	31,600	31,600	28,470	28,470	28,470
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	1,600	1,600	1,800	1,800	1,800
Mat'l. & Supp.	0	0	0	0	0
Rate Base	33,200	33,200	30,270	30,270	30,270
Rate of Return	Loss	11.5%	Loss	15.2%	11.0%

APPENDIX B
Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Gerber and vicinity, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$ 5.25	(I)
For 3/4-inch meter.....	5.80	
For 1-inch meter.....	7.90	
For 1-1/2-inch meter.....	10.50	
For 2-inch meter.....	14.20	(I)
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.....	0.60	(I)
Over 300 cu.ft., per 100 cu.ft.....	0.90	(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.

The Branch has sent letters to the retired customer and VCSD explaining its recommendations in this matter. The letters also state that PWC will receive no profit from this offset increase because it will only allow PWC to recover in rates, on a dollar-for-dollar basis, expense increases over which it has no control.

Service is satisfactory. There are no Commission orders requiring system improvement, nor are there significant service problems requiring corrective action.

The table below shows typical bills for residential customers at various usage levels at present and proposed rates:

General Metered Service (5/8 x 3/4-inch meters)

<u>Monthly Usage</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
300 cu.ft.	\$11.38	\$11.69	2.7
1,000	18.48	19.51	5.6
2,000	28.64	30.68	7.1
3,000	38.78	41.85	7.9
4,000	48.94	53.02	8.3
5,000	59.08	64.19	8.6

After investigation by the Branch, the Commission finds that the requested rate increase is reasonable, and to the extent provided by the following resolution is justified. PWC is directed to maintain its balancing account as required by Public Utilities Code Section 792.5.

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 Park Water Company, Vandenberg Water Division, is authorized, on the effective date herein, to make effective revised Schedules Nos. VN-1, and VN-3-M attached to Advice Letter No. 133 and to cancel the presently effective rate schedules for water service.

This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 6, 1986. The following Commissioners approved it:

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



VICTOR R. WEISSER
Executive Director