

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for

✓  
 Orig. and copy  
 to Executive Director

RESOLUTION NO. W-3325

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

\_\_\_\_\_  
 Director  
 \_\_\_\_\_  
 Numerical File  
 \_\_\_\_\_  
 Alphabetical File  
 \_\_\_\_\_  
 Accounting Officer

RESOLUTION

MINERAL CITY WATER SYSTEM (MCWS). ORDER AUTHORIZING  
 A GENERAL RATE INCREASE PRODUCING \$9,000 OR 46.1%  
 ADDITIONAL ANNUAL REVENUE.

By draft advice letter received by the Water Utilities Branch (Branch) on August 26, 1985, MCWS 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 \$17,223 or 92.9%. MCWS estimates that 1986 revenues of \$18,533 at present rates would increase to \$35,756 at proposed rates and provide a rate of return on rate base of 11.0%. MCWS currently serves about 173 metered customers in Mineral, Tehama County.

The present rates have been in effect since June 16, 1982, pursuant to Resolution No. W-2986, dated June 2, 1982, which authorized a general rate increase.

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

The Branch's estimate of operating revenue at present rates is higher than MCWS's. The Branch's estimate at requested rates is lower. MCWS used 168 customers in determining revenues, while the Branch had available a later figure of 173 which tended to increase its revenue estimates. Also, revenue from water use over 500 cubic feet under MCWS's requested quantity charge increase (to 56 cents per 100 cubic feet from 46 cents) should have been up only 22% instead of the 93% estimated by MCWS. Correcting this error gave the Branch a lower estimate at requested rates.

The difference between MCWS's and the Branch's estimates of operating expenses are in all categories.

The estimates for source of supply expense, materials, labor, office supplies vehicle expense, and payroll taxes differ primarily due to MCWS's past accounting practice of recording these items in the general expense account when they should have been recorded in their own accounts. For its 1986 test year estimates of these items, the Branch put recorded 1985 on the proper accounting basis and then escalated this amount to reflect customer growth and an amount for inflation found reasonable by the Research Branch of the Evaluation and Compliance Division. The Branch notes that MCWS is now keeping its records in compliance with the new system accounts adopted by the Commission, effective January 1, 1986.

The difference in the estimates of purchased power results from the Branch's use of the latest power rates and power consumption data.

MCWS's 1986 estimate of labor differs from the Branch's mainly because it reflects system alteration work done in prior years. To arrive at its estimate, the Branch adjusted 1985 recorded to exclude this alteration work and then escalated this amount to reflect customer growth and an amount for inflation found reasonable by ECD's Research Branch.

Insurance estimates differ because the Branch has used MCWS's most recent annual insurance bill as its estimate.

Accounting and legal expense estimates differ because MCWS included in its estimate legal fees (\$200) related to incorporation that should have been recorded in the intangible plant account in accordance with proper Commission accounting procedures. The intangible plant account contains all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation, and like other plant is included in the rate base.

MCWS's estimate of uncollectibles (revenue billed less revenue collected) is \$1,767 or about 5% of billed revenue. Looked at another way, MCWS is estimating that it will not be able to collect 5 cents out of every dollar due it for service. In the Branch's view, this amount of uncollectibles is excessive, especially for MCWS which is on annual rate schedules and collecting its revenues in advance. During the Branch's investigation, it was discovered that MCWS was not properly applying its tariff rules with respect to turn-off procedures for nonpayment nor keeping adequate billing records. In light of this the Branch recommends against any amount for uncollectibles in this case. The Branch has discussed this matter with MCWS and it has agreed to tighten up its operations in this area.

The difference in depreciation expense estimates results from differences in plant estimates and MCWS improperly including in its estimate depreciation on contributed plant.

Property tax estimates differ because the Branch had later information related to a new sewer tax which increased the Branch's estimate to \$1,100 as compared to MCWS' estimate of \$1,000.

The difference in rate base estimates results from differences in the estimates

of plant, depreciation reserve and working cash.

The Branch's estimate of plant is lower primarily because it excludes \$30,000 for a filtration plant to be added in 1986 as required by the Tehama County Environmental Health Department (TCEHD) as explained later in the discussion on service.

The difference in depreciation reserve estimates is due to the difference in plant estimates.

MCWS's estimate of working cash allowance is \$17,831, a very large amount (about 20% of rate base) when compared to any other water utility under Commission regulation. Also this estimate is not supported by workpapers. 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. The Branch recommends no working cash allowance because MCWS collects revenues in advance of providing service, a common practice among systems on annual rate schedules.

MCWS's requested increase would result in a rate of return on rate base of 11%. This is the midpoint of the rate of return range (10.75% to 11.25%) recommended for small water utilities by ECD's Financial Branch and the Branch believes this amount is reasonable.

MCWS was informed about the Branch's differing view of revenue, expenses, rate base, and rate of return and has stated that it accepts the Branch's estimates.

A notice of the proposed rate increase was mailed to all customers on December 19, 1985. Thirty-five customers wrote letters protesting the magnitude of the proposed increase. A petition of protest containing 64 signatures was also received. The protest related to the magnitude of the increase and not to service problems.

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

A field investigation was made on March 24 and 25, 1986 by a member of the Branch. Visible portions of the water system were inspected, pressures checked, customers and company employees interviewed, and methods of operations checked. The investigation indicated that MCWS's system is in compliance with the requirements of the Commission's General Order 103, Rules Governing Water Service, and that service is satisfactory. There are no outstanding Commission orders requiring system improvements.

MCWS's water supply is not filtered. There are occasions when turbidity is noticed. Also, water quality samples have at times shown excessive coliform counts. The term coliform refers to a bacterial group found in the intestines of warm-blooded animals. Normally, a high count indicates the presence of

fecal contamination. These high counts have prompted TCFHD, in its inspection report dated March 4, 1986, to require that a filtration plant be installed. The supplier of a filter plant for a nearby water company has offered to install a similar plant for MCWS for \$30,000. Nevertheless, the Branch recommends that MCWS put the project out for bid to ensure that the lowest price is obtained.

MCWS advised the Branch that it could obtain financing at the prime rate (currently 8.5%) plus 2% to finance it. Given the lead times (minimum 1 year) necessary for applying and receiving Safe Drinking Water Bond Act loans (currently 9%) this option is not available. The Branch notes that according to Section 818 of the Public Utilities Code, MCWS will be required to formally file an application to obtain Commission approval before entering into a long-term (over 12 months) loan agreement. This application must include the amount of the loan and its purpose.

Furthermore, because the Branch is concerned that the filter plant be most cost effective it recommends that MCWS be required, before proceeding on the project, to submit an engineering report on its plans to the Branch for review. The report should include the design specifications, project cost and a statement on the bid process, the impact on rates, and the project schedule. The Branch also recommends that MCWS be authorized to file an advice letter for an offset increase in rates to reflect the added capital cost of the filter plant, after it has been installed.

MCWS's minimum charge rates have been reviewed by the Commission in prior proceedings. The Branch believes that conditions continue to warrant their use. The water supply, from a spring source, is ample, except for a few weeks in late summer. Meters were installed and inverted rates adopted to act as a water conservation means during the water short summer months. The minimum quantity (500 cubic feet per month) represents a summer allowance for each customer who is asked not to exceed that amount. This conservation method has been successful as the summer time shortages of the past have not reoccurred despite an increase in customers. Snow conditions make it virtually impossible to read meters in the winter, therefore year-round customers (Schedule No. 1A, Annual General Metered Service) are billed only the minimum charge portion of the rates between November 1 and April 30. The Branch recommends that the present rate structure be retained and that the increase be applied evenly to all rates and charges. Monthly bills for a typical annual metered residential customer will increase from \$9.40 to \$13.74 while monthly bills for seasonal customers will increase from \$13.22 to \$19.30. A comparison of the present and the Branch recommended rates is shown in Appendix C.

MCWS carries in its tariff book rate Schedules Nos. 2RA - Annual Residential Flat Rate Service, 2RS - Seasonal Flat Rate Service, and 9FL - Temporary Special Flat Rate Service. There are, and have been for many years, no customers using these schedules. MCWS has requested, and the Branch concurs with, the withdrawal of these schedules.

The Branch recommends that the Commission authorize an increase of \$9,000 or 46.1%, which would increase estimated annual revenue from \$19,520 at present rates to \$28,520 at recommended rates contained in Appendix B. This increase provides for a 11.0% rate of return on rate base.

The Commission's opinion, after investigation by the Water Utilities Branch is that:

- a. The Branch's recommended Summary of Earnings (attached as Appendix A) is reasonable and should be adopted.
- b. Rate Schedules Nos. 2RA - Annual Residential Flat Rate Service, 2RS - Seasonal Flat Rate Service, and 9FL - Temporary Special Flat Rate Service should be discontinued.
- c. The rates recommended by the Branch (attached as Appendix B) are reasonable and should be adopted.
- d. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
- e. Installation of a water filtration plant is necessary and reasonable. However, before proceeding with the plant addition, MCWS should, by formal application to this Commission, request approval of any required long-term financing. Also, before proceeding, MCWS should submit an engineering report on its plans to the Branch for review. The report should include the design specifications, the project cost and a statement on the bid process, the impact on rates, and the project schedule.
- f. After completion of the filtration plant and it is in regular operation, MCWS may request by advice letter offset the inclusion of the filtration plant in rate base and the appropriate attendant increase in its rates for service.

THE COMMISSION FINDS that the increased rates hereby authorized are justified and 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 Mineral City Water System to file an advice letter incorporating the Summary of Earnings and revised rate Schedules Nos. 1A and 1S attached to this resolution as Appendices A and B, and concurrently to cancel the presently effective rate Schedules Nos. 1A, 1S, 2RA, 2RS, and 9FL. 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. After approval of the necessary long-term debt requirements of the project and review by the Water Utilities Branch as described in Opinion (e) above, Mineral City Water System is authorized to install a filter plant and file an advice letter requesting that an offset be granted in its rates for the inclusion of the filter plant in rate base. 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 July 16, 1966. The following Commissioners approved it:

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



---

VICTOR R. WEISSER  
Executive Director

APPENDIX A

MINERAL CITY WATER SYSTEM

SUMMARY OF EARNINGS  
(Estimated Year 1966)

Item	Utility Estimated		Branch Estimated		Adopted
	Present	Requested	Present	Requested	
	Rates	Rates	Rates	Rates	
Operating Revenue	\$ 18,533	\$ 35,756	\$ 19,520	\$ 34,730	\$ 28,520
<b>Operating Expenses</b>					
Source of Supply Exp.	-	-	90	90	90
Purchased Power	1,200	1,200	780	780	780
Materials	-	-	1,300	1,300	1,300
Labor	6,434	6,434	5,170	5,170	5,170
Management Salaries	1,731	1,731	1,730	1,730	1,730
Office Supplies & Exp.	-	-	200	200	200
Insurance	5,000	5,000	7,270	7,270	7,270
Accounting and Legal	900	900	700	700	700
General Expenses	3,099	3,099	200	200	200
Vehicle Expense	-	-	500	500	500
Uncollectibles	889	1,767	-	-	-
Total Operating Exps.	19,253	20,131	17,940	17,940	17,940
Depreciation	5,820	3,900	2,500	2,500	2,500
Property Taxes	1,000	1,000	1,100	1,100	1,100
Payroll Taxes	-	-	280	280	280
Income Taxes	200	1,400	200	2,990	1,550
Total Expenses	26,273	26,431	22,020	24,810	23,370
Net Revenue	(7,740)	9,325	(2,500)	9,920	5,150
<b>Rate Base</b>					
Average Plant	118,645	118,645	93,920	93,920	93,920
Avg. Depr. Res.	32,700	32,700	28,090	28,090	28,090
Net Plant	85,945	85,945	65,830	65,830	65,830
Less: Advances	-	-	-	-	-
Contributions	20,000	20,000	20,000	20,000	20,000
Plus: Working Cash	17,831	17,831	-	-	-
M&S	1,000	1,000	1,000	1,000	1,000
Rate Base	84,776	84,776	46,830	46,830	46,830
Rate of Return	Loss	11.0%	Loss	21.2%	11.0%

APPENDIX B  
Page 1

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.  
Quantity rate schedule to be in effect May 1 through October 31 only.

TERRITORY

Mineral and vicinity, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Monthly Quantity Rates:		
First 500 cu.ft., or less.....	\$11.69	(I)
Over 500 cu.ft., per 100 cu.ft.....	.67	
Annual Minimum Charge:		
For 5/8 x 3/4-inch meter.....	\$140.00	
For 3/4-inch meter.....	197.00	
For 1-inch meter.....	286.00	
For 1-1/2-inch meter.....	430.00	
For 2-inch meter.....	562.00	(I)

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



APPENDIX B  
Page 2

Schedule No. 1S

SEASONAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service from May 1 through October 31.

TERRITORY

Mineral and vicinity, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Monthly Quantity Rates:		
First 500 cu.ft., or less.....	\$ 16.44	(I)
Over 500 cu.ft., per 100 cu.ft.....	.67	
Seasonal Minimum Charge:		
For 5/8 x 3/4-inch meter.....	\$ 98.60	(I)
For 3/4-inch meter.....	131.00	
For 1-inch meter.....	205.00	
For 1-1/2-inch meter.....	292.00	
For 2-inch meter.....	387.00	

The Seasonal Minimum Charge will entitle the customer to the quantity of water each month which one-sixth of the seasonal minimum charge will purchase at the Monthly Quantity Rates.

APPENDIX C

COMPARISON OF RATES

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

METERED SERVICE

Minimum Charge:	Per Meter Per Year or Season			
	Present Rates		Recommended Rates	
	Annual	Seasonal	Annual	Seasonal
For 5/8 x 3/4-inch meter.....	\$ 96.00	\$ 67.50	\$140.00	\$ 98.60
For 3/4-inch meter.....	135.00	90.00	197.00	131.00
For 1-inch meter.....	196.00	140.00	286.00	205.00
For 1-1/2-inch meter.....	294.00	200.00	430.00	292.00
For 2-inch meter.....	385.00	265.00	562.00	387.00

Monthly Quantity Rates:

First 500 cu.ft., or less	8.00	11.25	11.69	16.44
Over 500 cu.ft., per 100 cu.ft.	.46	.46	.67	.67

A comparison of monthly customer bills for annual metered service between May 1 and October 31, at present and recommended rates for a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu.ft.	Present Bills	Recommended Bills	Amount Increase	Percent Increase
0	\$ 8.00	\$11.69	\$ 3.69	46.1
3	8.00	11.69	3.69	46.1
5	8.00	11.69	3.69	46.1
10	10.30	15.04	4.74	46.0
20	14.90	21.74	6.84	45.9
30	19.50	28.44	8.94	45.9
50	28.70	41.84	13.14	45.8
100	51.70	75.34	23.64	45.7

A comparison of monthly bills for seasonal metered service at present and recommended rates for a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu.ft.	Present Bills	Recommended Bills	Amount Increase	Percent Increase
0	\$11.25	\$16.44	\$ 5.19	46.1
3	11.25	16.44	5.19	46.1
5	11.25	16.44	5.19	46.1
10	13.55	19.79	6.24	46.0
20	18.15	26.49	8.34	45.9
30	22.75	33.19	10.44	45.9
50	31.95	46.59	14.64	45.8
100	54.95	80.09	25.14	45.8

APPENDIX D

Page 1

ADOPTED QUANTITIES  
(1986 Test Year)

Name of Company: Mineral City Water System

Net-to-Gross Multiplier:	1.20
Federal Tax Rates:	15%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0
Business License:	0
Uncollectible Rates:	0

Expenses Test Year 1986

1. Purchased Power: Total production not determined.  
Pacific Gas and Electric Company

Total Cost (\$)	\$ 780
Rate Schedule	A-1P
Effective Date	10/1/85
kWh:	7,926
\$/kWh	0.0977

2. Purchased Water: None

3. Pump Replenishment Tax: None

4. Payroll and Employee Benefits: \$ 5,200  
Management Salary \$ 1,700

Total \$ 6,900

Payroll Taxes 280

5. Ad Valorem Taxes: \$ 1,100  
Tax Rate 2.00%  
Assessed Value \$ 54,992

APPENDIX D  
Page 2

ADOPTED QUANTITIES

(1986 Test Year)

Service Connections:

1. Meter Size		
5/8 x 3/4"	Annual.....	138
5/8 x 3/4"	Seasonal.....	32
1"	.....	1
1-1/2"	.....	1
2"	.....	1
Total		173

2. Metered Water Sales Used to Design Rates:

<u>Range - Ccf</u>		<u>Usage - Ccf</u>
Block 1	0 - 5	2,595
Block 2	> 5	7,557
Total		10,152

ADOPTED TAX CALCULATIONS 1/

Line No.	Item	1986 Adopted Rates	
		CCFT	FIT
1.	Operating Revenues	\$28,520	\$28,520
2.	Operating Expenses	17,940	17,940
3.	Taxes Other Than Income	1,380	1,380
4.	Tax Depreciation	2,500	2,500
5.	Interest	-	-
6.	State Income Tax	-	640
7.	Subtotal Deduction	21,820	22,460
8.	State Taxable Income	6,700	
9.	State Income Tax (9.6%)	640	
10.	Federal Table Income	-	6,060
11.	Federal Income Tax (15%)	-	910
12.	Total Income Tax	-	1,550

1/ Corporation

(END OF APPENDIX D)

## APPENDIX B

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 92.9% RATE INCREASE BY MINERAL CITY WATER SYSTEM.

Dear Customer:

The Commission has authorized Mineral City Water System to increase its rates by 46.1%. For the typical year-round customer this will mean an increase in the average monthly bill to \$13.75 from \$9.40. For the typical seasonal customer the average monthly bill will increase to \$19.30 from \$13.22.

Some months ago Mineral City Water System notified its customers that it was applying to the Commission for authorization to increase its water rates by 92.9%. As a result of the notice, the Commission received thirty five letters and a petition signed by sixty four people protesting the size of the increase and requesting a thorough investigation.

Before the increase was granted, the Commission staff made a thorough analysis of the company's operations and all aspects of its rate increase proposal, including its revenues, expenses, plant investment and quality of service. As a result, the Commission authorized less than half what the company requested. The major reasons for the increase were higher insurance rates, higher taxes, and generally higher costs since the company's last increase in 1982.

The Tehama County Environmental Health Department recently ordered the company to install a new filter plant to ensure water quality. The Commission has also authorized the company to file for an additional rate increase to offset the cost of the new filter plant when it has been put into service.

In establishing rates, the Commission's role is twofold. It attempts to keep customer rates as low as possible while at the same time allowing the utility to cover operating expenses and receiving a fair return on its investment in water plant. This allows the company to continue to provide service and to attract the capital needed to replace plant for the future. You may be assured that Mineral City Water System's request was thoroughly reviewed by the Commission staff before this change in rates was authorized.

We appreciate the time you took to provide your views on the proposed rate increase. If you have any questions please call Ernst Knolle at (415) 557-1903.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch