

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for:

RESOLUTION NO. W-3328

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 \_\_\_\_\_  
 to Executive Director

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

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

R E S O L U T I O N

TRI-PALM ESTATES (TPE). ORDER AUTHORIZING A GENERAL  
 RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE  
 OF \$40,500 OR 32%.

TPE, by draft advice letter furnished to the Water Utilities Branch (Branch) on December 2, 1985, requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for sewer service by \$79,938 or 62%. TPE estimates that the 1986 gross revenues of \$129,018 at present rates would increase to \$208,956 at proposed rates. TPE serves about 1,499 customers in the city of Thousand Palms, Riverside County.

The present rates have been in effect since August 19, 1976 pursuant to Decision 86124 which authorized a general rate increase.

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

The differences in the estimates of operating expenses are in purchased power, employee labor, management, administration, accounting and legal, contract work, insurance, and payroll taxes.

The difference in the estimates of purchased power is due to the Branch's use of the most recent power consumption data and the latest power rates.

TPE's sewer system is operated in conjunction with Tri-Palm Estates Mobile Home Park (Park), owned by Great Western Properties, Inc. (developer). The employees working for the developer and the Park operate a real estate business and operate and maintain the sewer facilities, the mobile home complex including the recreation center, pool and spa, and the golf course. Since TPE does not record employee labor or administration, accounting and legal expenses separately for the sewer utility, it developed a utility allocation factor of

12.78% based on the ratio of 1985 sewer revenue to total revenue for the mobile home park. The Branch reviewed TPE's factor and found it to be reasonable, but differs from TPE in the method of application to determine specific expenses as explained below.

TPE estimated employee labor expenses by applying the allocation factor to recorded 1985 employee labor expense and adding 10% for anticipated wage increases which have not been granted. In doing so, TPE erred by leaving out some of its employees from the 1985 recorded figures.

To determine its management, administration, accounting and legal expense estimate of \$49,467, TPE used \$2.75 per month per customer. TPE acknowledges that the \$2.75 figure is arbitrary and unsupported, and the Branch considers the resulting estimate to be excessive.

Since TPE does not record its sewer expenses separately, the Branch prepared its estimates of labor, management, administration, accounting and legal expenses by first adjusting the 1985 recorded total for those categories to correct for the omission of employees noted above, then applying the allocation factor to determine the utility portion (\$31,250). The Branch next separately determined employee labor (\$12,870) and management and administration labor (\$10,610) for the utility by estimating the number of hours per year each employee spent on utility work and applying 1985 hourly wage rates, which are still current. The Branch believes that the remainder (\$7,770) represents a reasonable amount for accounting and legal expense for a company of TPE's size.

For contract work, TPE estimated \$17,892 while the Branch estimated \$20,780 for the test year. TPE showed a recorded 1985 cost of \$16,266 for repairs and maintenance by contract work and increased it by 10% to estimate their 1986 test year expense. TPE did not include an estimate for cleaning sewer mains on an annual basis. The Branch reviewed the total invoices for contract work and found that the \$16,266 could not be supported by vouchers. The vouchers reviewed could only support \$11,780. To this the Branch added \$9,000 which is the estimated annual cost of cleaning sewer mains as recommended by the Riverside County Health Department (RCHD).

Insurance expense as estimated by TPE is \$16,450 while the Branch's estimate is \$6,450. A review of the insurance policy disclosed that \$10,000 in premiums was to cover the pool, golf course, and items other than the sewer utility.

TPE estimated payroll taxes to be \$1,140 while the Branch estimated \$3,330 for the test year. TPE estimated payroll taxes on employee labor only. The Branch estimated payroll taxes using \$12,870 for employee labor plus the \$10,610 estimated for management salaries under the management, administration, accounting, and legal expense discussed earlier.

TPE was informed of the Branch's differing views of expenses and has stated that it accepts the Branch's estimates.

TPE's summary of earnings submitted with its draft advice letter requests a rate of return of 10% on rate base. The Financial Branch of the Evaluation and Compliance Division reviewed TPE's capital structure and found that a rate of return of 10% is reasonable.

On April 30, 1986, TPE submitted a 1985 annual report consisting of a balance sheet and a summary of earnings for calendar year 1985. All the expense items shown on the summary of earnings are identical to the Branch's estimated expenses for test year 1986. It is obvious that these amounts do not reflect recorded expenses for 1985.

General Order No. 104-A requires that every utility subject to the jurisdiction of the Commission file an annual report of its operations in such form and content as the Commission may prescribe. Because TPE's business records and annual reports to the Commission have been for its combined utility and non-utility operations, neither TPE nor the Commission's Water Branch were able to satisfactorily ascertain the level of some recorded utility expenses. The Branch recommends TPE be ordered to submit a corrected annual report for 1985 and henceforth to maintain its accounting records and file its annual reports under General Order No. 104-A in such a manner as to show separately those amounts which are associated with its utility operation.

A notice of the proposed increase was mailed to each customer on January 10, 1986. A total of 114 letters of protest were received. All complained about the magnitude of the rate increase. Two letters complained about cockroaches and odors.

An informal public meeting chaired by Branch engineers was held in the Tri-Palms Estates Recreation Center Auditorium on March 10, 1986. One hundred twelve people attended the meeting and 14 customers made comments related to the high rate increase, bad odors from sewer backups at certain locations, and cockroaches from the sewer manholes. In addition, customers complained of being denied an opportunity by the utility to review the accounting records and the advice letter submitted to the Commission. The Branch made a copy of TPE's submittal available to the homeowners association for review.

A representative of the State Regional Water Control Board attended the public meeting and requested customers notify him of any future health-related problems such as backups, odors or insects. RCHD has recommended that TPE implement a regular maintenance program of cleaning sewer mains. TPE is aware of the problems cited and agrees that a program is advisable. The Branch has included the estimated cost of inspecting and cleaning mains in its estimate of expenses and recommends that TPE be ordered to implement such a program.

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

A field investigation of TPE's system was made on February 28, 1986 by two members of the Branch. Visible portions of the sewer system were inspected, customers and company employees were interviewed, and methods of operation were reviewed. No odors or cockroaches were detected during the field investigation.

The Branch's recommended increase to TPE's present rates is approximately 32% (overall system increase percentage) to each tariff service. The monthly bill for residential service will increase from \$7.15 at present rates to \$9.40 at proposed rates.

The Branch recommends that the Commission authorize an increase of \$40,500 or 32%, which would increase estimated annual revenue from \$129,018 at present rates to \$169,500 at the recommended rates contained in Appendix B. This increase provides for a 10% 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.
- d. TPE should be required to maintain its accounting records and file its annual reports to the Commission pursuant to General Order No. 104-A in such a manner as to show separately those amounts associated with its utility operation.
- e. The 1985 annual report filed by TPE should be rejected and TPE ordered to file a revised annual report for its utility operation.
- f. TPE should be required to implement a regular maintenance program of cleaning sewer mains and to report to the Commission on its program annually for the next three years.

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 Tri-Palm Estates to file an advice letter incorporating the summary of earnings and revised 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 96-A.
2. The effective date of the revised rate schedules shall be the date of filing.
3. Tri-Palm Estates shall henceforth maintain its accounting records and shall file its annual reports to the Commission pursuant to General Order No. 104-A in such a manner as to show separately those amounts associated with its utility operation.
4. On or before August 31, 1986, Tri-Palm Estates shall file a revised annual report reflecting the calendar year 1985 recorded expenses for its utility operation.
5. Tri-Palm Estates shall initiate a continuous sewer maintenance schedule to consist of (a) inspection of all sewer mains at least annually, and (b) clean out mains at locations of past blockages at intervals of not longer than six months.

6. Tri-Palm Estates shall submit to the Commission by March 1 of 1987, 1988, and 1989 a report for the preceding calendar year showing how much sewer main was inspected and cleaned, the location of the mains inspected and cleaned, and the total cost of inspection and cleaning.

7. This resolution is effective today.

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

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



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VICTOR R. WEISSER  
Executive Director

APPENDIX A

SUMMARY OF EARNINGS  
(Estimated Year 1986)

| Item                                  | : Utility Estimated : |               | : Branch Estimated : |               | : Adopted : |
|---------------------------------------|-----------------------|---------------|----------------------|---------------|-------------|
|                                       | : Present :           | : Requested : | : Present :          | : Requested : |             |
|                                       | : Rates :             | : Rates :     | : Rates :            | : Rates :     |             |
| Operating Revenue                     | \$129,018             | \$208,956     | \$129,018            | \$208,956     | \$169,500   |
| <u>Operating Expenses</u>             |                       |               |                      |               |             |
| Purchased Power                       | 10,823                | 10,823        | 11,100               | 11,100        | 11,100      |
| Employee Labor                        | 11,080                | 11,080        | 12,870               | 12,870        | 12,870      |
| Management, Admin.<br>Acctg., & Legal | 49,467                | 49,467        | 18,380               | 18,380        | 18,380      |
| Contract Work,<br>Repairs & Maint.    | 17,892                | 17,892        | 20,780               | 20,780        | 20,780      |
| Collection Expense                    | 1,123                 | 1,123         | 1,123                | 1,123         | 1,123       |
| Office Supplies & Exp.                | 2,835                 | 2,835         | 2,835                | 2,835         | 2,835       |
| Insurance                             | 16,450                | 16,450        | 6,450                | 6,450         | 6,450       |
| Materials & Suppls.                   | 4,252                 | 4,252         | 4,252                | 4,252         | 4,252       |
| Total Expenses                        | \$113,922             | \$113,922     | \$77,790             | \$77,790      | \$77,790    |
| Depreciation                          | 21,590                | 21,590        | 21,590               | 21,590        | 21,590      |
| Property Taxes                        | 850                   | 850           | 850                  | 850           | 850         |
| Payroll Taxes                         | 1,140                 | 1,140         | 3,330                | 3,330         | 3,330       |
| Income Taxes                          | 0                     | 23,000        | 5,896                | 33,979        | 17,460      |
| Total Deductions                      | \$137,502             | \$160,502     | \$109,456            | \$137,539     | \$121,020   |
| Net Revenue                           | (8,484)               | 48,454        | 19,562               | 71,417        | 48,480      |
| <u>Rate Base</u>                      |                       |               |                      |               |             |
| Average Plant                         | 656,965               | 656,965       | 656,965              | 656,965       | 656,965     |
| Average Depr. Reserve                 | 172,870               | 172,870       | 172,870              | 172,870       | 172,870     |
| Net Plant                             | 484,095               | 484,095       | 484,095              | 484,095       | 484,095     |
| Less: Advances                        | 0                     | 0             | 0                    | 0             | 0           |
| Contributions                         | 0                     | 0             | 0                    | 0             | 0           |
| Plus: Working Cash                    | 0                     | 0             | 0                    | 0             | 0           |
| Mat'l. & Supp.                        | 0                     | 0             | 0                    | 0             | 0           |
| Rate Base                             | 484,095               | 484,095       | 484,095              | 484,095       | 484,095     |
| Rate of Return                        | (1.75%)               | 10.0%         | 4.04%                | 14.75%        | 10.0%       |

APPENDIX B  
(Page 1)

Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to all general residential sewer service.

TERRITORY

Tri-Palm Estates near Thousand Palms, Riverside County.

RATES

Single family residence ..... \$ 9.40 per month (I)

APPENDIX B  
(Page 2)

Schedule No. 2

COMMERCIAL AND INDUSTRIAL SERVICE

APPLICABILITY

.. Applicable to commercial and industrial sewer service.

TERRITORY

· Tri-Palm Estates near Thousand Palms, Riverside County.

RATE

Commercial service ..... \$31.70 per month (I)

(END OF APPENDIX B)



APPENDIX C

COMPARISON OF RATES

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

| <u>Flat Rates</u> | <u>Present Rates</u> | <u>Recommended Rates</u> | <u>Percent Increase</u> |
|-------------------|----------------------|--------------------------|-------------------------|
| Residence         | \$ 7.15              | \$ 9.40                  | 32%                     |
| Commercial        | 24.00                | 31.70                    | 32%                     |

APPENDIX D

ADOPTED QUANTITIES  
(1986 Test Year)

Name of Company: Tri-Palm Estates

|                           |        |
|---------------------------|--------|
| Net-to-Gross Multiplier:  | 1.5802 |
| Federal Tax Rates:        | 30.0%  |
| State Tax Rate:           | 9.6%   |
| Local Franchise Tax Rate: | 1.0%   |
| Business License:         | 0.0    |
| Uncollectible Rates:      | 0.0    |

Expenses

- Purchased Power (Electric)  
Imperial Irrigation Coachella Valley Water District

|                 |          |
|-----------------|----------|
| Total Cost (\$) | \$11,100 |
| kwh             | 156,220  |
| Eff. Sch. Date  | 2/83     |
| \$/kwh used     | 0.0710   |
| Rate Schedule   | D        |

- Purchased Water: None
- Pump Tax-Replenishment Tax: None
- Payroll and Employee Benefits:
 

|                           |                 |
|---------------------------|-----------------|
| Operation and Maintenance | \$12,870        |
| Administrative & General  | <u>\$10,610</u> |
| Total                     | \$23,480        |
- Ad Valorem Taxes:
 

|                |         |
|----------------|---------|
| Tax Rate       | 850     |
| Assessed Value | 0.1294% |
|                | 656,965 |

Service Connections

Number of Customers (Flat Rate)

|            |          |
|------------|----------|
| Residence  | 1,497    |
| Commercial | <u>2</u> |
| Total      | 1,499    |

APPENDIX E

ADOPTED TAX CALCULATIONS

| <u>Line<br/>No.</u> | <u>Item</u>                | 1986<br><u>Adopted Rates</u> |            |
|---------------------|----------------------------|------------------------------|------------|
|                     |                            | <u>CCFT</u>                  | <u>FIT</u> |
| 1.                  | Operating Revenues         | \$169,500                    | \$169,500  |
| 2.                  | O&M Expenses               | 77,790                       | 77,790     |
| 3.                  | Taxes Other Than Income    | 4,180                        | 4,180      |
| 4.                  | Depreciation               | 21,590                       | 21,590     |
| 5.                  | State Income Tax           | -                            | 6,330      |
| 6.                  | Sub-total Deduction        | \$103,560                    | \$109,890  |
| 7.                  | Net Taxable Income         | 65,940                       |            |
| 8.                  | Total State Tax            | 6,330                        |            |
| 9.                  | Net Taxable Income for FIT |                              | 59,610     |
| 10.                 | Total FIT                  |                              | 11,130     |
| 11.                 | Total Income Tax           |                              | 17,460     |

APPENDIX F

TO ALL THE CUSTOMERS WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 62% RATE INCREASE BY TRI-PALM ESTATES:

Dear Customer:

Tri-Palm Estates (TPE) has requested authorization to increase your rates for sewer service from \$7.15 to \$11.58 per month or by 62%. The Commission, after considering all the factors presented, has granted a 32% increase from \$7.15 to \$9.40 per month. The major reason for this increase is to cover increases in operating expenses.

TPE has gone ten years since a rate increase of any kind was granted. 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 TPE's investment in its sewer system. You may be assured that TPE's request was thoroughly reviewed and evaluated by the Commission before this change in rates was granted.

One hundred and fourteen letters protesting TPE's proposed increase were received by the Commission. Most letters expressed dissatisfaction with the magnitude of the proposed increase. Four letters also noted problems with service, including sewer backups. The Riverside County Health Department has recommended that TPE establish a regular maintenance program to clean out sewer mains as a preventive measure to reduce the incidence of backups and the Commission has ordered TPE to implement such a program as a condition of this increase.

The Commission appreciates your writing to us about this matter and wishes to thank those of you who attended the public meeting on March 10, 1986 and furnished our staff with supplemental information to conclude its assignment.

If you have further questions about the Commission's decision, please contact Albert Arellano of our staff at (213) 620-2608.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch