

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 to Executive Director

RESOLUTION NO. W-3333

EVALUATION & COMPLIANCE DIVISION
 BRANCH/SECTION: Water Utilities
 DATE: August 6, 1986

 Director

 Numerical File

 Alphabetical File

 Accounting Officer

R E S O L U T I O N

PHILLIPS WATER SERVICE (PWS). ORDER AUTHORIZING
 A GENERAL RATE INCREASE PRODUCING \$3,935 OR
 70.0% IN 1986.

PWS by draft advice letter received by the Water Utilities Branch (Branch) on November 25, 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 \$3,493 or 70% in 1986. PWS estimates that the 1986 gross revenue of \$4,990 at present rates would increase to \$8,483 at the requested rates and that the company would still be operating at a loss. PWS serves 25 metered customers in a community located west of Penngrove, Sonoma County.

The present rates were approved by Resolution No. W-2311 and became effective February 1, 1978.

The Branch made an independent analysis of PWS's summary of earnings. Appendix A shows PWS's and the Branch's estimates of the summary of earnings for 1986 at present, requested and adopted rates. The differences between PWS's and the Branch's estimates of the summary of earnings are in revenues, expenses, and rate base.

The Branch's estimates of revenue at present and proposed rates are higher than PWS's. The differences between the Branch's and PWS's estimates are due to the Branch having imputed revenue for water used by the owner and owner's father who currently make no direct payment for water service.

The differences in expenses are in purchased power, contract work and professional services, insurance, vehicle expense, office and storage, depreciation and property tax.

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

The Branch's estimates of contract work and professional services (accounting and legal) are lower than PWS's because PWS could provide no workpaper support for the portion of its professional services estimate in excess of past recorded levels for laboratory testing of water.

PWS does not currently have insurance but included \$1,100 in its summary of earnings based on an insurance offer it has received and rejected. Under the Commission's recently established policy allowing water utilities to obtain relief from rising insurance costs, PWS will be eligible to recoup through an offset advice letter filing most of any reasonable expense it incurs for insurance in the near future. Accordingly, the Branch has included nothing for insurance costs in its estimate.

PWS's estimate of vehicle expense is higher than the Branch's. PWS provided no workpapers to support its estimate. The Branch made its estimate from an estimate of the owner's annual vehicle mileage related to PWS matters, and a cost of \$0.21 per mile (latest IRS allowed mileage expense). Because PWS has a very small service area, vehicle usage is minimal.

For its estimate of office and storage expense, PWS used the approximate depreciation cost of a copy machine and a computer it recently purchased. The Branch has eliminated these amounts because the estimates for management salaries and for office supplies include the necessary labor and materials for PWS's current practice of preparing customer bills by hand. The Branch believes that PWS's proposed expense for these machines (\$1,097) could not displace a sufficient portion of its management salaries (\$1,260) and office supplies (\$200) to be cost-effective for a company serving only 25 customers.

The Branch's estimate of depreciation expense is higher than PWS's due to differing plant values, as explained later, and a differing depreciation rate. Although PWS provided no workpaper, its annual reports have been filed using 2.9% and the rate implied by its plant and depreciation expense figures is 2.53%, while the Branch used 2.4%.

The Branch's estimate of property tax expense is less than PWS's. In its analysis the Branch determined that PWS had inappropriately included the estimated CPUC Reimbursement Fee in this item. The Branch estimate is determined from the actual last billed amount for property tax.

The difference in rate base estimates results from the differences in the estimates of plant and depreciation reserve.

The Branch's estimate of plant and depreciation reserve are higher than PWS's. For both its draft advice letter and its annual reports filed with the Commission, PWS incorrectly accounted for retirements and transfer of plant. The Branch estimated values of the plant and depreciation reserve for the test year are the result of corrections to the plant accounts and reconstruction of the depreciation reserve since the last rate increase.

PWS's request would result in a 10.3% rate of return on rate base for the year 1986. That is below the rate of return range (10.75% to 11.25%) recommended by the Evaluation and Compliance Division's Financial Branch for small water utilities.

PWS was informed of the Branch's differing views on revenue, expenses, and rate base, and has stated that it accepts the Branch's estimates.

A notice of the proposed increase was hand delivered to each customer on June 1, 1986. The Branch received no complaints or comments in response to the notice.

A member of the Branch made a field investigation in April 1986. PWS's plant facilities were inspected, pressures checked, customers interviewed and the records examined. The investigation indicated that the service is good and that the system is well operated and in compliance with the Commission's General Order 103, Rules Governing Water Service. There are no outstanding Commission orders requiring system improvements. According to the Sonoma County Health Department there are no water quality problems.

PWS's current metered rate structure consists of a service charge, a 5-Ccf (hundred-cubic-feet) first block and an inverted tail block. PWS's water source (groundwater) is ample, however it is approaching the production limit of its existing wells. For this reason PWS would like to encourage conservation by its customers and has requested to continue the inverted block rate structure. The Branch believes this request is reasonable.

In accordance with the Commission's recent policy decision (D.86-05-064) regarding rate design, the Branch's recommended increase to PWS's rates will result in a larger portion (32.0% versus the current 8.0%) of the fixed costs of PWS's operation being recovered in the service charge portion of the rates. The monthly bill for the average customer will increase from \$11.00 to \$20.25. A comparison of present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$3,935 or 70.0% for 1986. This increase provides a return on rate base of 10.3% for test year 1986.

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 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 Phillips Water Service to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, 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 August 6, 1986. The following Commissioners approved it:

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



VICTOR R. WEISSER
Executive Director

APPENDIX A

PHILLIPS WATER SYSTEM

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :		: Present :		
	: Rates :	: Rates :	: Rates :	: Rates :	
Revenue - Metered	\$ 4,990	\$ 8,483	\$ 5,622	\$ 9,557	\$ 9,557
<u>Expenses</u>					
Purchased Power	2,000	2,000	1,936	1,936	1,936
Materials & Supplies	370	370	370	370	370
Contract Work and Professional Services	1,764	1,764	1,574	1,574	1,574
Management Salaries	1,260	1,260	1,260	1,260	1,260
Office Supplies	200	200	200	200	200
Insurance	1,100	1,100	0	0	0
General Expenses	200	200	200	200	200
Vehicle Expenses	718	718	200	200	200
Office & Storage	1,097	1,097	0	0	0
Sub-Total	\$ 8,709	\$ 8,709	\$ 5,740	\$ 5,740	\$ 5,740
Depreciation	800	800	823	823	823
Property Taxes	425	425	331	331	331
Income Taxes	0	0	0	39	39
Total Expenses	\$ 9,934	\$ 9,934	\$ 6,894	\$ 6,933	\$ 6,933
Net Revenue	(\$ 4,944)	(\$ 1,451)	(\$ 1,272)	\$ 2,624	\$ 2,624
<u>Rate Base</u>					
Average Plant	\$32,671	\$32,671	\$35,702	\$35,702	\$35,702
Average Depr. Res.	977	977	10,173	10,173	10,173
Net Plant	31,694	31,694	25,529	25,529	25,529
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Mats. & Suppls.	0	0	0	0	0
Rate Base	\$31,694	\$31,694	\$25,529	\$25,529	\$25,529
Rate of Return	Loss	Loss	Loss	10.3%	10.3%

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Phillips Acres and vicinity located adjacent to and westerly of the community of Penngrove, Sonoma County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 8.00	(I)
For 3/4-inch meter	8.80	
For 1-inch meter	12.00	
For 1-1/2-inch meter	16.00	
For 2-inch meter	21.60	
For 3-inch meter	40.00	(I)

Quantity Rates

First 500 cu.ft., per 100 cu.ft.	\$ 0.47	(R)
Over 500 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.

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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>	
Service Charge:	<u>Present Rates</u>	<u>Recommended Rates</u>
For 5/8 x 3/4-inch meter	\$ 2.00	\$ 8.00
For 3/4-inch meter	2.20	8.80
For 1-inch meter	3.00	12.00
For 1-1/2-inch meter	4.00	16.00
For 2-inch meter	5.40	21.60
For 3-inch meter	10.00	40.00
 Quantity Rates:		
First 500 cu.ft., per 100 cu.ft.	0.48	0.47
Over 500 cu.ft., per 100 cu.ft.	0.60	0.90

Comparison of monthly customer bills at present and Branch recommended rates for 1986 test year 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	\$ 2.00	\$ 8.00	\$ 6.00	300
5	4.40	10.35	5.95	135
10	7.40	14.85	7.45	101
16 (avg)	11.00	20.25	9.25	84
20	13.40	23.85	10.45	78
30	19.40	32.85	13.45	69
50	31.40	50.85	19.45	62
100	61.40	95.85	34.45	56

APPENDIX D
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ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Phillips Water Service

Net-to-Gross Multiplier:	N/A
Federal Tax Rates:	11.0% (marginal)
State Tax Rate:	1.0% (marginal)
Local Franchise Tax Rate:	0.0%
Business License:	0.0
Uncollectible Rates:	0.0

Expenses Test Year 1986

1. Purchased Power (Electric)

Total Production - Ccf 8,670

Pacific Gas and Electric Company

Total Cost (\$)	\$1,936
Rate Schedule	A-1
Eff. Sch. Date	3/13/86
kWh used	19,396
\$/kWh used	.09981

2. Purchased Water:	None
3. Pump Tax-Replenishment Tax:	None
4. Payroll and Employee Benefits:	
Operation and Maintenance	\$1,260
Administrative & General	0
5. Payroll Taxes	0
6. Ad Valorem Taxes:	\$331
Tax Rate	1.2047%
Assessed Value	\$27,375

APPENDIX D
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ADOPTED QUANTITIES
(1986 Test Year)

Service Connections

1. Meter Size

5/8 x 3/4" 25

2. Metered Water Sales Used to Design Rates:

0-5 Ccf 1,500
Over 5 Ccf 7,170
Total 8,670

ADOPTED TAX CALCULATIONS ¹

Line No.	Item	1986 Adopted Rates	
		CCFT	FIT
1.	Operating Revenues	\$9,557	\$9,557
2.	O&M Expenses	5,740	5,740
3.	Taxes Other Than Income	331	331
4.	Tax Depreciation	823	823
5.	State Income Tax	-	10
6.	Sub-total Deduction	6,894	6,904
7.	State Taxable Income	2,663	
8.	State Income Tax	10	-
9.	Federal Table Income	-	2,653
10.	Federal Income Tax	-	29
11.	Total Income Tax	-	39

¹ Individual

(END OF APPENDIX D)