

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

W 2

EVALUATION & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3357
April 8, 1987

R E S O L U T I O N

TEJA BUENA WATER COMPANY (TEWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$9,945 OR 47.6% ADDITIONAL ANNUAL REVENUE

TEWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on October 2, 1986, 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 \$23,967 or 100%. TEWC estimates that 1987 gross revenue of \$23,967 at present rates would increase to \$47,934 at proposed rates and would produce a rate of return of 20.0% on rate base. TEWC serves about 175 flat rate customers in the Teja Buena Subdivisions located three miles west of Yuba City, Sutter County.

The present rates have been in effect since July 26, 1982 pursuant to Resolution No. W-3000, dated July 7, 1982, which authorized a general rate increase.

The Branch made an independent analysis of TEWC's summary of earnings. Appendix A shows TEWC's and the Branch's estimated summary of earnings at present, requested and adopted rates. User fees which TEWC had erroneously included in revenues and expenses have been removed to place TEWC's and the Branch's estimates on a comparable basis. Appendix A shows differences in revenues, expenses, and rate base.

The difference in the estimates of revenue is due to a difference in the estimates of number of customers. TEWC used its estimated 1987 end of year number of customers while the Branch used the average number of customers for the year to estimate both revenue and expenses. Using the average number of customers for both revenue and expenses results in estimates more representative of a normal year.

The differences in estimated expenses are in power, materials, contract work, transportation, office rental, professional services, insurance, general expenses, depreciation, property taxes, payroll taxes and income taxes.

TEWC estimated its power consumption for the 1987 test year by increasing its 1986 estimated power cost by 50%. TEWC did not provide workpapers to substantiate its use of the 50% escalation factor. The Branch's estimate is based on the average annual kilowatt hours of electrical energy used per customer determined from TEWC's recorded energy bills over the last three years, the latest power rates (effective September 5, 1986) and the Branch's

estimate of average customers for 1987.

TEWC estimated materials expense at \$1,000; the Branch estimated \$1,070. TEWC offered no justification for its estimate. The Branch's estimate is based on the average cost per customer for the years 1981 through 1984 adjusted for inflation to 1987. The 1985 figure was not considered since there was no recorded amount for that year, and data for 1986 was not yet available. All escalation rates used for this and other Branch estimates were those recommended by the Research Branch of the Evaluation and Compliance Division.

The Branch's estimate of contract work is lower than TEWC's. TEWC derived its figure by increasing its 1986 estimated cost in proportion to its estimated 1987 end-of-year customer growth. The Branch estimated \$400 for water testing and \$660 for pump repairs. The figure for water testing was based on the current level of such costs which can be expected to continue. TEWC's contract work for 1986 included a pump repair which the Branch spread over the three-year rate case cycle. The Branch notes that pump repairs, while likely to occur again in the future, should be amortized for ratemaking to reflect the fact that they are unusual and do not occur annually.

TEWC's estimate of transportation expense is \$3,500 while the Branch's is much lower at \$370. TEWC provided no documentation for its 1987 figure, but did provide recorded vehicle mileage for 1985 and 1986 through November. By projecting a mileage figure for 1987 based on customer growth, the Branch found that TEWC's claimed expense came to \$1.99 per mile. The Branch reestimated transportation expense using the same projected mileage and \$0.21 per mile, the rate currently allowed by the Internal Revenue Service for businesses.

The Branch's estimate of office rental is lower than TEWC's. TEWC estimated an expense of \$200 per month for a 10 by 12 foot room in the owner's home. The Branch's estimate of \$100 per month is based on the Branch's experience with similar sized utilities operating under similar conditions.

The Branch's estimate of professional services is lower than TEWC's. TEWC's estimate included \$1,200 per year for legal work performed by the owner's son in connection with TEWC's rapid expansion. As discussed later in this resolution, both the California Department of Health Services (DHS) and the Branch recommend restricting further expansion. This should reduce legal activities and legal expenses. The Branch estimates legal expenses will be \$1,200 for 1987 and \$600 for each of the years 1988 and 1989, an average of \$800 per year over the three-year rate case cycle. The Branch accepted the other components of TEWC's professional services estimate.

The Branch's estimate of insurance expense is lower than TEWC's. TEWC did not provide supporting documents to substantiate its estimate. The Branch used TEWC's current actual insurance cost.

TEWC estimated \$1,800 for general expense, but offered no support for its figure. The Branch estimated \$1,690 based on the average cost for the last three years adjusted to reflect customer growth and inflation.

The Branch's estimate of depreciation expense is lower than TEWC's. TEWC's initial depreciation figure was submitted without workpapers; a subsequent

submittal had several errors including charging depreciation expense on contributed plant. The Branch used the same 3% depreciation rate as TEWC and the Commission's standard method of calculating depreciation expense.

The Branch's estimate of property tax is higher than TEWC's. The Branch based its estimate on TEWC's most recent tax bill which was not available to TEWC when it filed its request.

The Branch's estimate of payroll taxes is lower than TEWC's. TEWC did not provide supporting documents to substantiate its estimate. The Branch's estimate is based on its estimated payroll and current payroll tax rates.

The Branch's estimate of income taxes is higher than TEWC's at requested rates. The difference is due to TEWC not including federal taxes at its requested rates.

The Branch's estimate of rate base is lower than TEWC's because of differences in average plant, depreciation reserve, contributed plant and working cash.

The Branch's estimate of average plant is significantly higher than TEWC's because TEWC inadvertently used the 1986 average plant for its 1987 estimate. Otherwise, TEWC's and Branch's estimates for 1987 would be the same.

The Branch's estimate of average depreciation reserve is lower than TEWC's due to the difference explained under depreciation expense above. In addition, the Branch went back to TEWC's last general rate case in 1983 and corrected accumulated errors by recalculating the reserve from that point forward.

The Branch's estimate of contributed plant is higher than TEWC's because TEWC used its January 1, 1986 contributed plant total for its 1987 estimate without considering the 1986 and 1987 contributions. The Branch's estimate reflects the latest recorded data updated through 1987 including the additional contributions.

The Branch's estimate of working cash is lower than TEWC's. The Branch's estimate is based on its estimated level of revenues and expenses and the Commission's Standard Practice U-16, Determination of Working Cash Allowance. TEWC did not provide workpapers to substantiate its estimate.

The summary of earnings submitted with TEWC's rate increase request produces a rate of return on rate base of 20.0% at proposed rates. The Branch's summary of earnings shows a rate of return of 10.5% at its recommended rates. This is the midpoint of the rate of return range (10.25% to 10.75%) recommended for small water utilities with 100% equity financing by the Accounting and Financial Branch of the Evaluation and Compliance Division.

TEWC was informed of the Branch's differing view of revenues, operating expense, depreciation, taxes, 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 October 16, 1986. Twelve letters protesting the size of the rate increase were received. Three also complained about sand or mineral deposits in the water

and one complained about low pressure.

A public meeting was held on December 9, 1986 with the Branch staff and representatives of TB&C. Approximately 30 customers and a representative from the Sutter County Health Department (SCHD) attended the meeting. In general, the customers complained about the amount of the increase, water quality problems, water outages, low pressures, sand or mineral deposits and their inability to contact TB&C's personnel in emergencies.

Regarding water quality problems, the SCHD representative explained that the water is safe to drink and meets state standards based on recent tests conducted by SCHD.

The SCHD representative also explained that an SCHD employee had just completed a sand and mineral deposits test on the water system and was preparing a report that would include recommendations to rectify the problems. The test has since been completed, but the results were not conclusive enough for SCHD to make any recommendations. The problem appears to be isolated and of unknown cause. Neither the Branch nor SCHD considers corrective actions necessary; however, TB&C has indicated that it will initiate a flushing program to minimize the problem.

Regarding water outages, the owner explained that TB&C was in the process of installing an auxiliary power supply to keep the system in operation during power outages. The Branch has determined that installation has since been completed.

Concerning low pressures, TB&C's maintenance employee explained that the system pressure is constantly at about 60 psi and that, in his opinion, low pressure in certain houses is due to inadequate plumbing. He stated that a majority of the houses have 3/4" connection lines and recommended the use of 1" to 1-1/2" connection lines. However, as discussed below, the Branch's investigation indicated that pressures were in accordance with the Commission's General Order 103 (G.O. 103), Rules Governing Water Service.

To address the problem of customers' inability to contact TB&C's personnel during emergencies, the owner promised to install a message recording device to handle emergency calls when utility personnel are not available. This device was installed on December 10, 1986 and has been verified by the Branch.

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 of TB&C's system was made on November 6, 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 while service is satisfactory, TB&C's system is not in compliance with the requirements of G.O. 103, in that TB&C does not have a current system map and TB&C does not keep water production records. TB&C has production meters, but does not read them regularly. Water production records are necessary to allow TB&C to monitor leakage, pump

efficiencies, etc. There are no outstanding Commission orders requiring system improvements.

According to the SCHD, water quality is good. However, DHS conducted a study of the system on behalf of the SCHD and recommended that the SCHD require that service connections be limited until an additional water source is added. In a separate matter, the Branch notified TEWC on October 16, 1986 that any future request for extension of its service area must be accompanied by a water supply study prepared by a licensed engineer showing the system has a supply adequate to meet a 1,000 gallon per minute (gpm) fire flow requirement and the maximum hourly peak demand assuming its service area is fully developed. The Branch recommends that such a requirement be made part of the order in this rate case.

Decision 80070 dated May 16, 1972 granting TEWC a certificate of public convenience and necessity ordered TEWC to enter into a loss reimbursement agreement requiring the developer to contribute to a loss reimbursement account varying amounts upon the initial sale or transfer of any lots within the subdivision. In this instance, the developer and the owner of TEWC are the same individual. Loss reimbursement account funds were to be used only for paying certain expenses of TEWC as outlined in the decision, during its developmental period when expenses would be greater than revenue. The decision ordered refund of any amounts remaining in the fund upon the 20th anniversary of the establishment of the fund. If, prior to the 20th anniversary, TEWC were earning a reasonable return on its investment, either the developer or TEWC could request termination of the fund.

TEWC has apparently never properly maintained the fund records, claims that the amounts deposited have long since been exhausted, and has submitted a letter requesting the fund be terminated. A review of TEWC's annual reports indicates that it has been consistently losing money since its certification. Even the increase granted in 1982 did not allow for any return on investment. Based on these facts, the Branch recommends that TEWC be authorized to terminate the loss reimbursement fund.

TEWC currently does not have a water conservation program. However, TEWC has expressed its intention to meter those customers in the future suspected of excessive water usage. As indicated earlier, its supply is limited and the Branch recommends that any future request for extension of its service area be accompanied by a water supply study prepared by a licensed engineer showing that the system has an adequate water supply.

TEWC's metered rate schedule consists of a service charge and two rate blocks. TEWC currently serves no metered customers; however, the metered rate schedule should be retained since there is a possibility that excessive users may be metered. The Branch proposes to revise the metered schedule to a service charge and a single metered quantity rate. This is consistent with the Commission's rate design policy for small water companies established by Decision 86-05-064 which calls for fewer rate blocks, the elimination of lifeline, and service charges which recover up to 50% of fixed costs.

The Branch recommends that the Commission authorize an increase of \$9,945 or 47.6% which would increase estimated annual operating revenue from \$20,895 at

present rates to \$30,840 at the recommended rates contained in Appendix B. This increase provides a 10.5% rate of return on rate base.

At the Branch's recommended rates, the monthly bill for a typical flat rate customer would increase from \$9.75 to \$14.40 or 47.7%. A comparison of the present and recommended rates is shown in Appendix C.

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

- a. The Branch 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 recommendation are reasonable and should be adopted.
- d. TBWC should be ordered to prepare and keep current a system map as required by paragraph I.10.a. of General Order 103. Two copies of this map should be submitted to the Commission within 180 days of the effective date of this order.
- e. Any future request for extension of TBWC's service area should be accompanied by a water supply study prepared by a licensed engineer showing that the system has a supply adequate to meet a 1,000 gallon per minute fire flow requirement and the maximum hourly peak demand assuming its service area is fully developed.
- f. TBWC should be authorized to terminate its loss reimbursement fund.
- g. TBWC should be ordered to maintain water production records as required by paragraph II.4.b. of General Order 103.
- h. TBWC should be ordered to develop and implement a water conservation program.

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 Teja Buena Water Company 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 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. TBWC shall prepare and keep current a system map as required by paragraph

II.10.a. of General Order 103. Two copies of this map shall be submitted to the Commission within 180 days of the effective date of this order.

4. Any future request for extension of TBWC's service area shall be accompanied by a water supply study prepared by a licensed engineer showing that the system has a supply adequate to meet a 1,000 gallon per minute fire flow requirement and the maximum hourly peak demand assuming its service area is fully developed.

5. TBWC is authorized to terminate its loss reimbursement fund.

6. TBWC shall maintain water production records as required by paragraph II.4.b. of General Order 103.

7. This resolution is effective today.

8. TBWC shall develop a water conservation program and submit it to the Water Utilities Branch of the Evaluation and Compliance Division for review within 45 days. TBWC shall implement its water conservation program after review and concurrence by the Division.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 8, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. CHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director

APPENDIX A

Teja Buena Water Company

SUMMARY OF EARNINGS

Estimated Year 1987

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
<u>Operating Revenue</u>					
Flat	\$ 23,607	\$ 47,259	\$ 20,895	\$ 41,790	\$ 30,840
Total Revenues	\$ 23,607	\$ 47,259	\$ 20,895	\$ 41,790	\$ 30,840
<u>Operating Expenses</u>					
Power	4,200	4,200	4,070	4,070	4,070
Employee Labor	2,400	2,400	2,400	2,400	2,400
Materials	1,000	1,000	1,070	1,070	1,070
Contract Work	2,000	2,000	1,060	1,060	1,060
Transportation	3,500	3,500	370	370	370
Office Salary	2,400	2,400	2,400	2,400	2,400
Mgmt. Salary	4,800	4,800	4,800	4,800	4,800
Office Rental	2,400	2,400	1,200	1,200	1,200
Office Supplies	1,500	1,500	1,500	1,500	1,500
Prof. Services	3,400	3,400	3,000	3,000	3,000
Insurance	4,000	4,000	2,490	2,490	2,490
Gen. Expenses	1,800	1,800	1,690	1,690	1,690
Total Expenses	33,400	33,400	26,050	26,050	26,050
<u>Deductions</u>					
Depreciation	1,600	1,600	1,090	1,090	1,090
Property Tax	400	400	500	500	500
Payroll Taxes	2,000	2,000	1,030	1,030	1,030
Income Taxes	200	200	200	3,040	500
Total Deductions	4,200	4,200	2,820	5,660	3,120
Total Exp. & Ded.	37,600	37,600	28,870	31,710	29,170
Net Revenue	(13,993)	9,659	(7,975)	10,080	1,670
<u>Rate Base</u>					
Average Plant	163,839	163,839	212,350	212,350	212,350
Average Depr. Res.	26,644	26,644	25,580	25,580	25,580
Net Plant	137,195	137,195	186,770	186,770	186,770
Less: Advances	0	0	0	0	0
Contributions	89,995	89,995	171,760	171,760	171,760
Plus: Working Cash	1,000	1,000	920	920	920
Mat'l. & Suppl.	0	0	0	0	0
Rate Base	48,200	48,200	15,930	15,930	15,930
Rate of Return	Loss	20.04%	Loss	63.28%	10.5%

APPENDIX B
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The subdivisions known as Teja Buena 1 and 2, and vicinity, located (T)
approximately 3 miles west of Yuba City, Sutter County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water, per 100 cu.ft.....	0.68	(I)
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$ 5.10	(I)
For 3/4-inch meter.....	5.60	
For 1-inch meter.....	7.70	
For 1-1/2-inch meter.....	10.20	
For 2-inch meter.....	13.75	(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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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The subdivisions known as Teja Buena 1 and 2, and vicinity, located (T)
approximately 3 miles west of Yuba City, Sutter County.

RATES

	<u>Per Service Connection Per Month</u>	
For a single-family residential unit, including premises not exceeding 9,000 sq.ft. in area.....	\$14.40	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection.....	10.30	
b. For each 100 sq.ft. of premises in excess of 9,000 sq.ft.....	0.10	
c. For each swimming pool.....	2.60	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 1-1/4-inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.

APPENDIX C

COMPARISON OF RATES

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

FLAT RATE

	Per Service Connection Per Month		
	<u>Present Rates</u>	<u>Recomm. Rates</u>	<u>Percent Increase</u>
For a single-family residential unit, including premises not exceeding 9,000 sq.ft. in area.....	\$ 9.75	\$14.40	47.7
a. For each additional single-family residential unit on the same premises and served from the same service connection.....	7.00	10.30	47.1
b. For each 100 sq.ft. of premises in excess of 9,000 sq.ft.....	0.07	0.10	42.9
c. For each swimming pool.....	1.75	2.60	48.6

APPENDIX D

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ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Teja Buena Water Company

1987 Test Year

Net-to-Gross Multiplier:	1.30
Federal Tax Rate:	15.0%
State Tax Rate:	9.6%
Business License:	0.0
Uncollectible Rate:	0.0

Expenses

1. Purchased Power (Electric)	
Pacific Gas & Electric Company	
Total Cost (\$)	\$ 4,070
kWh/Used	44,040
Effective Schedule Date	9/5/86
\$/kWh Used	0.09238
Schedule	A1-P
2. Purchased Water:	None
3. Pump Tax-Replenishment Tax:	None
4. Payroll and Employee Benefits:	
Operation and Maintenance Payroll	\$ 2,400
Administrative & General Salaries	7,200
Total	\$ 9,600
Payroll Taxes	\$ 1,030
5. Ad Valorem Taxes	\$ 500
Tax Rate	1.0%
Assessed Value	\$50,252

Average Service Connections (Flat Rate Only)

Single-family residential units not exceeding 9,000 sq.ft.	175
Additional single-family units on same premises	0
Units of 100 sq.ft. in excess of 9,000 sq.ft.	0
Swimming pools	20

APPENDIX D
Page 2

ADOPTED TAX CALCULATIONS

:Line:		: At 1987 Rates :	
:No. :	Item	: State Tax :	: FIT :
1.	Operating Revenues	\$30,840	\$30,840
2.	O&M Expenses	8,970	8,970
3.	A&G Expenses	17,080	17,080
4.	Tax Other Than Income	1,530	1,530
5.	Depreciation	1,090	1,090
6.	State Tax	-	210
7.	Subtotal	28,670	28,880
8.	Net Taxable Income for State Tax	2,170	
9.	State Tax @ 9.6%	210	
10.	Total State Tax	210	
11.	Net Taxable Income for FIT		1,960
12.	Federal Income Tax @ 15%		290
13.	Total FIT		290

APPENDIX E

TO CUSTOMERS WHO HAVE WRITTEN TO THE COMMISSION REGARDING TEJA BUENA WATER COMPANY'S REQUEST FOR A 100% RATE INCREASE.

Dear Customer:

On October 16, 1986, Teja Buena Water Company (TBWC) notified its customers by mail that it was requesting authority from the Public Utilities Commission to raise its rates for water service by an average of 100% in 1987. After considering all factors presented, the Commission has authorized an increase in gross annual revenues of \$9,945 or 47.6%. For a typical flat rate customer, this will mean an increase in the monthly bill from \$9.75 to \$14.40.

Following TBWC's request, the Commission staff conducted a thorough investigation of the company's operations including an analysis of the revenue, expense, and plant investment data which the utility relied on for its proposal. The staff made adjustments to TBWC's estimates and recommended that the Commission authorize the smaller increase. The major reason for the increase is to cover increased operating expenses.

In response to TBWC's notice, 12 customer letters were received protesting the magnitude of the increase. Subsequently, a public meeting was held on December 9, 1986.

To address specific complaints raised by these letters and at the public meeting, TBWC has installed a message recording device to handle emergency calls when personnel are not available, installed a generator to provide auxiliary power during outages, and indicated that it will initiate a flushing program to minimize sand problems.

The Commission is aware that the percentage increase granted is large; however, this utility has been operating at a loss for many years. In fact, the last increase granted in 1982 allowed only enough to cover TBWC's expenses; it did not allow for a return on TBWC's investment.

In establishing rates, the Commission's role is twofold. Rates must be kept as low as possible and, at the same time, be sufficient to cover operating expenses and provide a fair return on the utility's investment in its water system. You may be assured that the utility's request was thoroughly reviewed and evaluated by the Commission staff before this increase was granted.

We appreciate that you took the time to provide your opinions on the proposed rate increase. If you have any questions, please call Richard Tom of our staff at (415) 557-2572.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch