

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3360
DATE: May 13, 1987R E S O L U T I O NJENSEN WATER COMPANY (JWC). ORDER AUTHORIZING A
GENERAL RATE INCREASE PRODUCING \$11,410 OR 27.0%
ADDITIONAL ANNUAL REVENUE.

JWC, by draft advice letter furnished to the Water Utilities Branch (Branch) on September 5, 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 \$21,435 or 55.0%. JWC estimates that 1986 gross revenue of \$38,996 at present rates would increase to \$60,431 at proposed rates and would produce a rate of return of 11.19% on rate base. JWC serves about 351 meter rate customers in Cabazon, Riverside County.

The present rates have been in effect since May 14, 1982 pursuant to Resolution No. W-2971 dated April 21, 1982 which authorized a general rate increase.

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

The Branch's estimates of revenues at present and proposed rates are higher than JWC's. The differences in estimates are due to the Branch's using a higher estimate of total water sales to calculate revenues. The Branch based its higher water sales estimate on the recorded 1986 number of customers while JWC based its estimate on the lowest number of customers recorded during calendar year 1985. Both the Branch and JWC used the same average consumption per customer.

The differences in estimates of operating expenses are in purchased water, purchased power, materials expense, office supplies, accounting and legal, general expense, depreciation expense and income tax.

JWC estimated \$17,830 for purchased water while the Branch estimated \$14,280 despite a higher usage estimate. JWC's owner has set up an unusual situation wherein he utilizes water from a spring, pipes the water down to a storage tank and treats it before putting it into the system, all using land and facilities he owns outside the service territory but does not consider part of the utility. Instead of recovering his costs through operating expenses and rate base, he accounts for the supply as purchased water and has imputed a cost per Ccf (hundred cubic feet). Because cost records for the facilities were not readily available, and because there is a legitimate question as to whether the

facilities should be considered utility investment and expenses as discussed later, the Branch has agreed to base its estimate on an imputed cost per Cof of water supplied.

JWC has been recording water purchased at \$0.30 per Cof, but has arbitrarily raised the cost to \$0.40 per Cof for this rate request without support. The Branch examined the facilities and such limited records as were available and determined that an imputed cost of \$0.30 per Cof would produce approximately the same overall water cost as considering all expenses and investments as being incurred by the utility. The Branch believes this produces an equitable balance for the utility and its customers for the present, but is concerned about the long term implications as discussed later.

JWC estimated \$5,676 for purchased power while the Branch estimated \$4,100. In addition to water from the spring, JWC supplements its supply from two wells which are used primarily during the summer when surface flow from the spring is low. All recorded purchased power cost comes from the use of the well pumps. JWC used its recorded 1985 power cost as a base. The Branch believes that JWC's estimate for purchased power is excessive because a greater than normal amount was pumped from the wells in 1985 due to forest fire contamination of the spring water. The Branch therefore based its estimate on the average power usage recorded during the last three years and more recent power rates which were not available when JWC made its estimates.

The Branch's estimated materials expense is lower than JWC's. JWC's estimate was based on an average of 1984 and 1985 recorded expenses. The Branch noted that recorded expenses for 1984 were abnormally high and therefore believes that it would be more representative to use the average of the last three recorded years escalated for inflation to the 1986 level. All of the Branch's escalation factors for this and other accounts were those recommended by the Advisory, Evaluation and Research Branch of Evaluation and Compliance Division (ECD).

The Branch's estimated office supplies expense is lower than JWC's. JWC used the recorded 1984 expense for its estimate. The 1984 recorded expense for this account is considerably greater than that recorded for 1983 and 1985. The Branch believes this recorded 1984 expense reflects extraordinary and non-recurring expenses and therefore used the average of 1983 through 1985 recorded expenses escalated to 1986.

The Branch's accounting and legal expense estimate is lower than JWC's. JWC's estimate of \$900 was based on expenses for legal advice not directly related to JWC and therefore was not accepted by the Branch. The Branch's \$250 estimate is an escalation to 1986 of the expense allowed by the Commission in the last general rate increase resolution in 1982. The Branch used this method because there was insufficient recorded data available for 1984 and 1985.

The Branch's general expense estimate is considerably higher than JWC's. The Branch's initial investigation determined that JWC's estimate of \$1,264 was reasonable. However, subsequent to JWC's submittal of this rate request, the State Department of Health Services (DHS) mandated additional water testing. The Branch therefore increased its estimate by \$1,000 to cover the additional expense.

The Branch's estimate of depreciation expense is lower than JWC's. The Branch's estimate is based on a composite rate of 3.33% and a lower 1986 estimated plant, while JWC used a 4% rate which is extraordinarily high for a small water company. JWC's last general rate case in 1982 used the 3.33% rate and the Branch's review indicates it is still appropriate. The Branch recommends that JWC be required to use the 3.33% rate until a future depreciation study reviewed by the Branch indicates a revision is warranted.

The Branch's calculation of income tax at proposed rates is significantly greater than JWC's. JWC did not calculate federal income tax and claimed only the minimum \$200 amount for state income tax. The Branch has included both federal and state income taxes in its summary of earnings.

The Branch's estimate of rate base is lower than JWC's because of differences in utility plant, depreciation reserve, working cash and materials and supplies.

The Branch's estimate of utility plant is lower than JWC's because the Branch recommends retiring two tanks and a concrete reservoir which are in poor condition, not in use, and not likely to be useful in the future. The recommended retirement lowers plant and depreciation reserve equally and therefore has only a very small effect on rate base.

The Branch's estimate of depreciation reserve is higher than JWC's, despite the Branch's imputed tank and reservoir retirement. Investigation by the Branch revealed numerous serious errors in the way the depreciation reserve was calculated since the date the last resolution was effective. The Branch therefore recalculated depreciation reserve for 1982 through 1986 starting with the depreciation reserve and composite rate allowed in the last resolution and adjusting in 1986 for the difference in utility plant.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in JWC's annual reports, the Branch recommends that JWC be directed to record on its books of account the utility plant and depreciation reserve beginning balances upon which the average amounts adopted in this resolution are based, and to revise its 1986 annual report accordingly. Those balances are: plant in service, \$144,380 as of January 1, 1986; and reserve for depreciation, \$72,160 as of January 1, 1986.

The Branch's estimate of working cash is greater than JWC's even though JWC's operating expenses are greater than the Branch's. Working cash is an allowance in rate base to compensate investors for funds provided by them to pay operating expenses in advance of receipt of offsetting revenues and to maintain minimum bank balances. JWC made several errors in using the Commission's simplified method for calculating working cash.

The Branch's estimate of materials and supplies is lower than JWC's because the Branch's investigation of JWC's records indicated that materials and supplies were being expensed and there was no significant inventory.

JWC's summary of earnings submitted with its rate increase request shows a rate of return on rate base of 11.19%. This is above the rate of return range (10.25% to 10.75%) recommended for small water utilities with 100% equity financing by ECD's Auditing and Financial Branch. The Branch recommends the midpoint rate of return of 10.5% for JWC.

JWC was informed of the differences in revenues, operating expenses, rate base and rate of return, and has accepted the Branch's estimates.

Notice of the proposed increase was mailed to each customer on September 24, 1986. Six letters and a petition signed by customers from 150 of the residences served by JWC were received concerning the proposed increase. All protested the magnitude of the rate increase and one also complained that errors were made by JWC in reading the meter. JWC subsequently adjusted the bills to the customer's satisfaction.

An informal public meeting chaired by Branch engineers was held in Cabazon on October 27, 1986. Fifty customers attended the meeting; ten made comments. These customers were concerned with the magnitude of the increase, billing errors, and occasional excessive chlorine and air in the water. The president of JWC was present at the meeting and promised that he would immediately check and adjust erroneous bills and take care of any other service problems brought to his attention. A district engineer with DHS also attended and explained that the small amounts of air and chlorine sometimes present in the system were normal and not a health threat.

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

Field investigations of JWC's system were made by Branch engineers on July 2, 1986 and October 21, 1986. Visible portions of the system were inspected, pressures checked, company records researched and customers interviewed. The investigation indicated that JWC's system is in satisfactory condition and provides adequate service. However, JWC was unable to supply records of water production from the spring and the wells. The Branch recommends that JWC be ordered to comply with General Order 103 (G.O. 103), Rules Governing Water Service, by installing a suitable measuring device or otherwise determining production at each source of supply. JWC should be allowed to file an advice letter to begin recovering the reasonable cost of such installations after they have been put into operation.

JWC's water quality is in compliance with DHS requirements. There are no outstanding Commission orders requiring system improvements. JWC's multiple sources of water supply and large storage facility together provide ample water supply and all customers are metered. Therefore, a water conservation program is not needed at this time.

By Decision 86-05-064 the Commission adopted a new policy effective May 28, 1986 calling for recovery of up to 50% of water companies' fixed expenses through service charges. The new policy also calls for phasing out lifeline rates and allows for reduction of multiple blocks to a single block.

The present metered rate schedule consists of a service charge, a lifeline block of 300 cubic feet, and a second block for consumption over 300 cubic feet. Depending on whether JWC's spring water is considered purchased water and therefore a variable expense, JWC's service charges may already exceed 50% of its fixed expenses. The Branch's recommended rate structure therefore places the increase on the commodity charge and converts the existing two commodity blocks to a single block. The resulting commodity charge is still less than the aggregate commodity charges shown in the customer notice and will give customers in this generally low income area a better opportunity to limit their bills by controlling usage.

At the Branch's recommended rates the monthly bill for the average metered customer using 10 Ccf will increase from \$10.00 to \$12.80 or 28.0%. A comparison of present and recommended rates is shown in Appendix C.

As noted previously, there is an unresolved question as to whether certain facilities used to supply water to the system are properly classified as part of the utility. JWC has two wells in its service territory which are probably capable of providing sufficient water most of the year. JWC's owner has also developed a spring on the mountainside about 1-1/2 miles south of its territory and a water tank and treatment facility on the mountainside about 1/4 mile south of its territory, all on land he owns. It is advantageous to JWC's customers to rely as much as possible on the spring source and associated facilities because, although the well water is healthful, the spring water is of higher quality, pumping is not required, and the tank provides storage much greater than needed and at an elevation sufficient to pressurize the system.

JWC's owner considers the spring, transmission main, storage tank, treatment facilities, and the associated land as not belonging to the utility. Accordingly, he has included in the utility's books of account and in this rate request an expense for water purchased from himself and has not included the facilities in rate base.

Use of the spring and associated facilities is advantageous to customers, and JWC's owner is willing to accept a rate calculated by the Branch to balance what the cost would be if the facilities were included as belonging to the utility. The owner's construction records are not presently available and it will take considerable time and effort to reconstruct what the historical cost of the facilities should be. Should the use of the facilities in question be withdrawn, the utility's wells would provide lower quality (although not unhealthful) water at higher cost. For these reasons, the Branch recommends that this increase be approved on the basis described.

The Branch is, however, concerned by the longer term issue of dedication of the spring source and associated facilities to public use. Should JWC's owner sell the utility without these facilities, or sell the water elsewhere, JWC's customers would suffer. This issue would most appropriately be settled in a formal proceeding, either at such time as JWC's owner applies for Commission authorization for future transfer of the utility or as part of a formal

application for a general rate increase. The Branch, therefore, has proposed and JWC's owner has accepted in writing the following conditions to this rate increase:

- a) Jensen Water Company agrees to protect the spring source and transmission, storage and treatment facilities for the benefit of its customers until such time as the issue of dedication of those facilities to public use is decided by the Commission.
- b) Jensen Water Company agrees that the Commission's approval of this rate increase based in part on an imputed quantity rate for water delivered to the system by Jensen's owner is not a finding by the Commission on the issue of dedication to public use of the facilities in question.
- c) The owner of Jensen Water Company agrees not to dispose of the land or facilities in question separate from the utility until the Commission has decided the issue of their dedication to public use.
- d) The owner of Jensen Water Company agrees not to sell the utility without prior Commission approval as required by Public Utilities Code Sections 851-854.

With JWC's owner's acceptance of these conditions, the Branch recommends that the Commission authorize an increase of \$11,410 or 27.0% which would increase estimated annual operating revenue from \$42,310 at present rates to \$53,720 at the recommended rates contained in Appendix B. This increase provides a 10.50% 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 (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 adopted.
- c. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
- d. JWC should be required to use a 3.33% composite depreciation rate until a future depreciation study reviewed by the Branch indicates that a revision is warranted.
- e. JWC should be required to show on its books of account and in its 1986 annual report to the Commission the retirement of two tanks and a concrete reservoir which are in poor condition, not in use, and not likely to be useful in the future.
- f. JWC should be required to record on its books of account the utility plant and depreciation reserve beginning balances upon which the average amounts adopted in this resolution are based, and to revise its 1986 annual report accordingly. Those balances are: plant in service, \$144,380 as of January 1, 1986; and reserve for depreciation, \$72,160 as of January 1, 1986.

- g. JWC should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at each source of supply. JWC should be allowed to file an advice letter to begin recovering the reasonable cost of such installations after they have been put into operation.
- h. This increase should be granted subject to conditions agreed to by JWC's owner aimed at preserving the benefits of JWC's spring source and associated facilities for JWC's customers until such time as the issue of their dedication to public service is determined, as described herein.
- i. Approval of this rate increase based in part on an imputed quantity rate for water delivered to the system by JWC's owner is not a finding by the Commission on the issue of dedication to public use of the facilities in question.

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 Jensen Water Company to file an advice letter incorporating the summary of earnings and revised rate Schedule No. 1 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. Jensen Water Company shall use a 3.33% composite depreciation rate until a future depreciation study reviewed by the Water Utilities Branch indicates that a revision is warranted.
4. Jensen Water Company shall show on its books of account and its 1986 annual report to the Commission the retirement of two tanks and a concrete reservoir which are in poor condition, not in use, and not likely to be useful in the future.
5. Jensen Water Company shall record on its books of account the utility plant and depreciation reserve beginning balances upon which the average amounts adopted in this resolution are based, and shall revise its 1986 annual report accordingly.
6. Jensen Water Company shall comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at each source of supply within 180 days of the effective date of this resolution. Jensen Water Company is authorized to file an advice letter to begin recovering the reasonable cost of such installations after they have been put into operation.
7. Jensen Water Company shall protect the spring source and transmission, storage and treatment facilities located on the mountainside south of its

service territory for the benefit of its customers until such time as the issue of dedication of those facilities to public use is decided by the Commission.

8. The owner of Jensen Water Company shall not dispose of the land or facilities referred to in Ordering Paragraph No. 7 above separate from the utility until the Commission has decided the issue of their dedication to public use.

9. The owner of Jensen Water Company shall not sell the utility without prior Commission approval as required by Public Utilities Code Sections 851-854.

10. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on May 13, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
JOHN B. OHANIAN
Commissioners

Commissioner Frederick R. Duda
being necessarily absent, did
not participate.



VICTOR B. WEISSER
Executive Director

Commissioner G. Mitchell Wilk
being necessarily absent, did
not participate.

APPENDIX A

Jensen Water Company

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenue	\$38,996	\$60,431	\$42,310	\$65,230	\$53,720
<u>Operating Expenses</u>					
Purchased Water	17,830	17,830	14,280	14,280	14,280
Purchased Power	5,676	5,676	4,100	4,100	4,100
Payroll	12,600	12,600	12,600	12,600	12,600
Materials Expense	2,793	2,793	2,290	2,290	2,290
Office Supplies	1,085	1,085	515	515	515
Accounting & Legal	900	900	250	250	250
General Expense	1,264	1,264	2,260	2,260	2,260
Vehicle Expense	725	725	725	725	725
Office & Storage	1,200	1,200	1,200	1,200	1,200
Uncollectibles	100	100	100	100	100
Total Expenses	\$44,173	\$44,173	\$38,320	\$38,320	\$38,320
Depreciation	5,780	5,780	4,600	4,600	4,600
Property Taxes	360	360	360	360	360
Income Taxes	200	200	200	5,090	2,415
Total Deductions	\$50,513	\$50,513	\$43,480	\$48,370	\$45,695
Net Revenue	(\$11,517)	\$ 9,918	(\$ 1,170)	\$16,860	\$ 8,025
<u>Aver. Rate Base</u>					
Average Plant	\$150,760	\$150,760	\$144,380	\$144,380	\$144,380
Average Depr. Res.	66,316	66,316	74,460	74,460	74,460
Net Plant	84,444	84,444	69,920	69,920	69,920
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	2,500	2,500	6,450	6,450	6,450
Mat'l. & Suppl.	1,700	1,700	0	0	0
Rate Base	\$88,644	\$88,644	\$76,370	\$76,370	\$76,370
Rate of Return	Loss	11.19%	Loss	22.08%	10.50%

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

The area known as Cabazon Estates Number Two, located in portions of the City of Cabazon, and vicinity, Riverside County.

RATES

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>	
All water, per 100 cu.ft.	\$ 0.81	(I) (C)
 <u>Service Charge</u>		
For 5/8 x 3/4-inch meter	\$ 4.70	
For 3/4-inch meter	5.15	
For 1-inch meter	7.05	
For 1-1/2-inch meter	9.40	
For 2-inch meter	12.70	
For 3-inch meter	23.50	

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.

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>		<u>Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 4.70	\$ 4.70	0%
For 3/4-inch meter	5.15	5.15	0
For 1-inch meter	7.05	7.05	0
For 1-1/2-inch meter	9.40	9.40	0
For 2-inch meter	12.70	12.70	0
For 3-inch meter	23.50	23.50	0
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft.	\$ 0.46	\$ 0.81	76.1%
Over 300 cu.ft., per 100 cu.ft.	0.56	0.81	44.6%

A monthly bill comparison 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	\$ 4.70	\$ 4.70	\$ 0.00	0
3	6.08	7.13	1.05	17.3
5	7.20	8.75	1.55	21.5
10 (avg)	10.00	12.80	2.80	28.0
15	12.80	16.85	4.05	31.6
20	15.60	20.90	5.30	34.0
30	21.20	29.00	7.80	36.8
50	32.40	45.20	12.80	39.5
100	60.40	85.70	25.30	41.9

APPENDIX D
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ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Jensen Water Company

Net-to-Gross Multiplier:	N/A
Federal Tax Rate:	15.0%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0
Business License:	0
Uncollectible Rate:	0

Expenses

1. Purchased Power:
Southern California Edison Company

Total Cost	\$4,100
kWh	40,050
Eff. Sch. Date	9/9/86
\$/kWh used	0.10238
Rate Schedule	GS-1

2. Purchased Water:

Total Cost	\$14,280
Ccf	47,600*
\$/Ccf	0.30

3. Pump Tax-Replenishment Tax: None

4. Payroll \$12,600

5. Ad Valorem Taxes: \$360
Tax Rate 1.307%
Assessed Value \$27,552

Service Connections

Meter Size

5/8 x 3/4"	350
2"	1
Total	351

Metered Water Sales Used to Design Rates:

Usage, Ccf	42,000
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* Estimated from storage tank meter-spring source is unmetered.

APPENDIX D
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ADOPTED TAX CALCULATIONS

<u>Line No.</u>	<u>Item</u>	<u>1986 Adopted Rates</u>	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$53,720	\$53,720
2.	Operating Expenses	38,320	38,320
3.	Taxes Other Than Income	360	360
4.	Tax Depreciation	4,600	4,600
5.	Interest	0	0
6.	State Income Tax	-	1,000
7.	Sub-total Deduction	43,280	44,280
8.	State Taxable Income	10,440	-
9.	State Income Tax	1,000	-
10.	Federal Taxable Income	-	9,440
11.	Federal Income Tax	-	1,415
12.	Total Income Tax	-	2,415

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING JENSEN WATER COMPANY'S REQUEST TO RAISE ITS RATES.

Dear Customer:

On September 24, 1986, Jensen Water Company notified its customers that it was applying to the Commission for authorization to increase its water rates by 55.0%. After considering all factors presented, the Commission has authorized Jensen to raise its rates by 27.0%. For metered customers using an average of 10 Ccf (hundred cubic feet) per month this will mean an increase in the monthly bill to \$12.80 from \$10.00.

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 only about half of what the company requested. Jensen's last rate increase was in 1982 and the utility has been operating at a loss under the present rates.

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 receive 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 Jensen'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 Richard Finnstrom at (213) 620-2588.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch