

EVALUATION & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3364
May 29, 1987

R E S O L U T I O N

(RES. W-3364), ELK GROVE WATER WORKS (EGW).
ORDER AUTHORIZING A GENERAL RATE INCREASE
OF \$73,970 OR 16.0% ADDITIONAL ANNUAL
REVENUE.

EGW, by draft advice letter accepted by the Water Utilities Branch (Branch) on September 4, 1986 and amended on March 3, 1987 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 \$105,600 or 23.0%. EGW estimates that 1986 gross revenue of \$458,500 at present rates would increase to \$564,100 at proposed rates and would produce a rate of return of 10.50% on rate base. EGW serves about 77 metered and 4,668 flat rate customers in the town of Elk Grove, Sacramento County.

The present rates have been in effect since April 7, 1981 pursuant to Resolution No. W-2816 which authorized a general rate increase.

The Branch made an independent analysis of EGW's summary of earnings. Appendix A shows EGW's and the Branch's estimated summary of earnings at present, requested, and adopted rates. There are differences in the estimates of revenues and operating expenses.

The Branch and EGW met on several occasions to discuss the summary of earnings. In general, the differences in revenues and expenses result from: 1) later information provided by EGW, 2) the Branch's use of the latest power rates in calculating pumping costs, 3) differences in estimating methodologies, 4) rate-making adjustments recommended by the Branch, and 5) differences in items such as taxes which depend on the level of expenses and revenues estimated elsewhere. The major differences involved employee labor, office and management salaries, and expenses related to professional services (accounting, consulting and legal fees). These differences are addressed below.

The difference between the Branch's and EGW's estimates of employee labor is in the salary of a part-time employee. EGW estimated this part-time employee's salary to be \$10,920 in 1986 while the Branch estimated it to be \$4,800. The Branch's estimate is based on an average of this part-time employee's recorded annual salary from 1982 through 1985 escalated to 1986 using the inflation factors recommended by the Research Branch of the Evaluation and Compliance Division (RBEC). During the period from 1982 through 1985 the employee's salary fluctuated between \$3,400 and \$5,600. The Branch believes that because of this fluctuation, the method of averaging is the best way of estimating the part-time employee's salary in the test year. It is the Branch's view that

EGW's estimate is unreasonable when compared to historical levels.

The difference in the Branch's and EGW's estimates of office salaries is in the part-time office workers' pay. As with part-time labor, part-time office workers' salaries have fluctuated over the last several years. Therefore the Branch estimated 1986 part-time office workers salaries by taking the average over the last 5 years, 1981 through 1985, escalated to 1986. EGW based its 1986 estimate on the recorded 1986 office salaries which included part-time office salaries much higher than historical data indicates.

The Branch's estimate of management salaries (president and general manager) is \$43,150 versus EGW's estimate of \$59,600. The reasons for the difference relate to the base annual salary level, the treatment of the general manager's salary for ratemaking, and capitalized salaries (amount of salary charged to capital projects).

EGW estimated the president's salary at \$50,000 per year and the part-time (40%) general manager's salary at \$25,000. Based on later information provided by EGW on comparative salaries for managers doing similar work in the vicinity of EGW's operations (Sacramento County), the Branch believes that \$45,000 for the president's salary is reasonable.

With respect to the general manager's salary, the Branch notes that on a full-time basis it would come to \$62,500 per year, or \$12,500 more than the president. When compared to the president, the duties performed by the general manager require about the same level of expertise. Therefore, the Branch believes that it is reasonable for the salary level of the general manager and the president to be equal on a full-time basis. By this reasoning the general manager's salary is \$18,000 per year, which reflects that he works only part-time ($\$18,000 = .40 \times \$45,000$).

The difference in amounts of salary capitalized is in the general manager's salary. EGW capitalized 15% in its estimate, whereas the Branch relying on later information supplied by EGW capitalized 20%. Both the Branch and EGW capitalized 25% of the president's salary.

The Branch's estimate of professional services in 1986 is less than that of EGW's because it recommends disallowance of services related to a stock transfer which took place in 1986 (Decision 86-11-072 in Application 86-08-037), to consulting services associated with main extensions, and to 50% of the cost of a \$10,000 engineering study concerning utility expansion conducted by Brown and Coldwell in 1986. The stock transfer was strictly a stockholders' transaction solely for their benefit, related costs should not be borne by the ratepayer. Costs, associated with a main extension project should be included as part of the main extension contract and not passed through to the ratepayer. Because expansion benefits both ratepayer and stockholder the Branch believes that it is reasonable for 50% of the cost of the engineering study to be borne by the stockholders, leaving \$5,000 for the ratepayers. This \$5,000 represents a non-recurring expense and should be amortized over the 3-year rate case cycle.

On April 14, 1987, the Branch and EGW met for a final time to discuss the remaining differences in the summary of earnings. After this meeting, the

utility stated that it agrees to accept the Branch's recommendations on the level of revenues, expenses, and rate base.

As Appendix A shows, the Branch accepted as reasonable EGN's test year rate base estimate of \$425,231. The differences between the Branch and EGN are in the estimates of total operating revenues at proposed rates and total operating expenses. The Branch's estimates of revenues is slightly higher (about 1%), \$570,534 versus \$564,100 for EGN. For expenses, the Branch's estimate is \$505,973, whereas EGN's is \$519,455, a difference of less than 3%.

A notice of EGN's proposed rate increase was mailed to all customers on December 12, 1986. Two customers responded. The first supported EGN's request but suggested it be implemented over a couple of years. The second complained of low pressure in the early morning. The Branch informed EGN of the complaint and the utility has been in contact with the customer. To help with the problem, EGN has offered to clean-out both the customer's and utility's pipes to possibly help the situation. The customer appears to be satisfied with EGN's response.

A field investigation of EGN's system was made on September 16 and 17 and December 3, 1986 by members 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 EGN'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. According to the State Department of Health Services (DHS) the quality of water delivered is good except for manganese and iron which are on the borderline for maximum contaminant level. Although these elements may be unacceptable from an aesthetic viewpoint, as far as is known, humans suffer no harmful effects from drinking water high in iron and manganese.

DHS also indicated that because the community of Elk Grove is expanding so fast demand is slowly surpassing capacity and if not monitored closely in the future could present water supply problems. EGN is aware of this and has informed DHS that installation of a new well is presently in the planning stage and will be in service in the near future.

Rate design was not an issue in the rate increase request for this predominantly (about 98%) flat rate system. Therefore, the Branch consistent with past Commission decisions recommends that the increase to each class of service (flat, metered, and private fire) be equal, within the limitations of rounding, to the recommended system average increase of 16%.

The Branch recommends that the Commission authorize an increase of \$73,970 or 16.0% which would increase estimated annual operating revenue from \$463,730 at present rates to \$537,700 at the recommended rates contained in Appendix B. This increase provides a 10.50% rate of return on rate base.

At the Branch's recommended rates, the monthly bill for a typical flat rate residential customer with a 1-inch connection and 10,000 square foot lot will increase from \$8.70 to \$10.05. The monthly bill for a typical metered commercial customer with a 2-inch meter consuming 200 Ccf of water will

increase from \$32.20 to \$37.20. 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'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 recommendation 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 ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Elk Grove Water Works 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 Schedule Nos. 1, 2 and 4. 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. This Resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on May 29, 1987. The following Commissioners approved it:

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



VICTOR R. WEISSER
Executive Director

APPENDIX A

ELK GROVE WATER WORKS

SUMMARY OF EARNINGS
(Estimated Year 1986)

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenues					
Metered	\$ 31,015	\$ 38,158	\$ 31,689	\$ 38,987	\$ 36,744
Flat	417,010	513,054	421,566	518,659	488,810
Private Fire	10,475	12,888	10,475	12,888	12,146
Total Revenues	458,500	564,100	463,730	570,534	537,700
Operating Expenses					
Power	119,200	119,200	123,420	123,420	123,420
Employee Labor	55,400	55,400	49,280	49,280	49,280
Materials	19,500	19,500	18,700	18,700	18,700
Contract Work	5,100	5,100	4,770	4,770	4,770
Transportation Exp.	6,700	6,700	7,647	7,647	7,647
Office Salaries	55,700	55,700	52,367	52,367	52,367
Management Salaries	59,600	59,600	48,150	48,150	48,150
Employee Pens. & Ben.	7,000	7,000	5,874	5,874	5,874
Uncoll. Account Exp.	1,000	1,000	1,000	1,000	1,000
Office Svc. & Rental	5,500	5,500	5,500	5,500	5,500
Office Suppls. & Exp.	28,600	28,600	30,180	30,180	30,180
Professional Svcs.	20,300	20,300	13,955	13,955	13,955
Insurance	33,600	33,600	33,600	33,600	33,600
Reg. Comm. Exp.	2,000	2,000	2,000	2,000	2,000
General Expenses	6,900	6,900	6,000	6,000	6,000
Total Expenses	426,100	426,100	402,443	402,443	402,443
Depreciation	52,915	52,915	52,915	52,915	52,915
Income Taxes	200	15,240	200	28,195	15,254
Taxes Other Than Income	25,200	25,200	22,420	22,420	22,420
Total Deductions	504,415	519,455	477,978	505,973	493,032
Net Revenue	(45,915)	44,645	(14,248)	64,561	44,668
Rate Base					
Average Plant	2,560,407	2,560,407	2,560,407	2,560,407	2,560,407
Avg. Depr. Reserve	526,030	526,030	526,030	526,030	526,030
Net Plant	2,034,377	2,034,377	2,034,377	2,034,377	2,034,377
Less: Advances	1,281,340	1,281,340	1,281,340	1,281,340	1,281,340
Contributions	304,510	304,510	304,510	304,510	304,510
Reserve-ITC	46,304	46,304	46,304	46,304	46,304
Plus: Working Cash	11,008	11,008	11,008	11,008	11,008
Mat'l & Supp.	12,000	12,000	12,000	12,000	12,000
Rate Base	425,231	425,231	425,231	425,231	425,231
Return on Rate Base	(Loss)	10.50%	(Loss)	15.18%	10.50%

APPENDIX B
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Elk Grove and vicinity, Sacramento County.

RATES

Quantity Rate:	<u>Per Meter</u> <u>Per Month</u>	
Per 100 cu.ft.....	\$ 0.15	(I)
Service Charge:		
For 5/8 x 3/4-inch meter.....	2.50	(I)
For 3/4-inch meter.....	2.90	⋮
For 1-inch meter.....	4.05	⋮
For 1-1/2-inch meter.....	5.35	⋮
For 2-inch meter.....	7.20	⋮
For 3-inch meter.....	13.30	⋮
For 4-inch meter.....	18.10	⋮
For 6-inch meter.....	30.15	(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.

APPENDIX B
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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Elk Grove and vicinity, Sacramento County.

RATES

Per Service Connection
Per Month

1. For a single-family residential unit, including premises not exceeding 4,000 sq.ft. in area and served from a service connection having a diameter of:		
3/4-inch.....	\$ 4.30	(I)
1-inch.....	7.65	
1-1/4-inch.....	11.95	
1-1/2-inch.....	16.95	
2-inch.....	28.30	
3-inch.....	67.25	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection.....	\$ 1.60	(I)
b. For each 100 sq.ft. of premises in excess of 4,000 sq.ft.....	0.04	(I)
2. For each office, public hall or lodge room.....	3.60	(I)
3. For each grocery or produce market, bakery, beauty shop or other commercial establishment where water is used for commercial operations....	4.40	(I)

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

Elk Grove and vicinity, Sacramento County.

RATES

	<u>Per Month</u>	
For each 3-inch or less connection.....	\$ 7.40	(I)
For each 4-inch connection.....	8.70	
For each 6-inch connection.....	12.41	
For each 8-inch connection.....	16.10	
For each 10-inch connection.....	19.70	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be as determined by the utility, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX C
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COMPARISON OF RATES

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

METERED SERVICE

Service Charge:	Per Meter Per Month		Percent Increase
	Present Rates	Recommended Rates	
For 5/8 x 3/4-inch meter.....	\$ 2.15	\$ 2.50	16.28%
For 3/4-inch meter.....	2.50	2.90	16.00
For 1-inch meter.....	3.50	4.05	15.71
For 1-1/2-inch meter.....	4.60	5.35	16.30
For 2-inch meter.....	6.20	7.20	16.13
For 3-inch meter.....	11.50	13.30	15.65
For 4-inch meter.....	15.60	18.10	16.03
For 6-inch meter.....	26.00	30.15	15.96

Quantity Rates:

Per 100 cu.ft.....	0.13	0.15	15.38
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FLAT RATES

1. For a single-family residential unit, including premises not exceeding 4,000 sq.ft. in area and served from a service connection having diameter of:

3/4-inch meter.....	\$ 3.70	\$ 4.30	16.22
1-inch meter.....	6.60	7.65	15.91
1-1/4-inch meter.....	10.30	11.95	16.02
1-1/2-inch meter.....	14.60	16.95	16.10
2-inch.....	24.40	28.30	15.98
3-inch.....	58.00	67.25	15.95

a. For each additional single-family residential unit on the same premises and served from the same service connection.....

	\$ 1.40	\$ 1.60	14.29
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b. For each 100 sq.ft. of premises in excess of 4,000 sq.ft....

	0.035	0.04	14.29
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2. For each office, public hall or lodge room.....

	3.10	3.60	16.13
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3. For each grocery or produce market, bakery, beauty shop or other commercial establishment when water is used for commercial operations..

	3.80	4.40	15.79
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APPENDIX C
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COMPARISON OF RATES

A comparison of monthly bills at present and Branch recommended rates for 1936 test year is shown below:

Usage 100 cu.ft. 5/8" x 3/4"	Present Bills	Recommended Bills	Amount Increase	Percent Increase
0	\$ 2.15	\$ 2.50	\$0.35	16.28
3	2.54	2.95	0.41	16.14
5	2.80	3.25	0.45	16.07
10	3.45	4.00	0.55	15.94
15	4.10	4.75	0.65	15.85
20	4.75	5.50	0.75	15.79
30	6.05	7.00	0.95	15.70
50	8.65	10.00	1.35	15.61
100	15.15	17.50	2.35	15.51

FLAT RATE

1. For single-family				
4,000 sq.ft.:				
3/4-inch	\$ 3.70	\$ 4.30	\$ 0.60	16.22
1-inch	6.60	7.65	1.05	15.91
1-1/4-inch	10.30	11.95	1.65	16.02
1-1/2-inch	14.60	16.95	2.35	16.10
2-inch	24.40	28.30	3.90	15.98
3-inch	58.00	67.25	9.25	15.95
a. For each additional connection.				
	\$ 1.40	\$ 1.60	\$ 0.20	14.29
b. For each 100 sq.ft. in excess of 4,000 sq.ft.				
	0.035	0.0400	0.005	14.29
c. For each office.....				
	3.10	3.60	0.50	16.13
3. For each commercial operation....				
	3.80	4.40	0.6000	15.79

APPENDIX D

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ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Elk Grove Water Works

Federal Tax Rate: 15.0% @ \$25,000, 18% @ \$25-50,000
 30% @ \$50-75,000, 40% @ \$75-100,000, 46% @ \$100,000-1,000,000
 State Tax Rate: 9.60%
 Local Franchise Tax Rate: 0%
 Business License: 0.00%
 Uncollectible Rates: 0.2%

Expenses Test Year 1986

1. Purchased Power (Electric)
 - Sacramento Municipal Utility District
 - Total Cost (\$) \$123,420
 - kwh 1,799,494
 - Eff. Sch. Date 3/1/87
 - \$/kwh used 0.0686
 - Rate Schedule SMUD Rate 47
2. Purchased Water: None
3. Pump Tax-Replenishment Tax: None
4. Payroll:
 - Operation and Maintenance Payroll \$ 49,280
 - Administrative & General Salaries 101,525
 - Total Payroll \$150,805
5. Employee Pensions and Benefits \$ 5,874
6. Payroll Taxes \$ 11,220
7. Ad Valorem Taxes: \$ 11,200
 - Tax Rate 1.0835% 1.1077%
 - Assessed Value \$118,284 \$897,283

Service Connections

1. Meter Size
 - 5/8 x 3/4-inch..... 8
 - 3/4-inch..... 4
 - 1-inch..... 11
 - 1-1/2-inch..... 7
 - 2-inch..... 38
 - 3-inch..... 5
 - 4-inch..... 3
 - 6-inch..... 1
 - Total 77

APPENDIX D
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ADOPTED QUANTITIES
(1986 Test Year)

2. Metered Water Sales Used to Design Rates: 200,955 Ccf

3. Flat Rate Service Size

3/4-inch.....	1,490
1-inch.....	3,104
1-1/4-inch.....	44
1-1/2-inch.....	3
2-inch.....	26
3-inch.....	1
Total	4,668

4. The number of excess units and square footage was not available. Flat rate revenues related to these items were developed by subtracting known revenue elements out of total recorded revenues and escalating to the test year. EGN is developing a computerized billing system to determine the exact amount of revenues to be collected for each category. It is expected that this system will be implemented by the next rate case.

ADOPTED TAX CALCULATIONS

Line No.	Item	1987 Adopted Rates	
		CCFT	FIT
1.	Operating Revenues	\$537,700	\$537,700
2.	O&M Expenses	203,817	203,817
3.	AIG Expenses	199,634	199,634
4.	Taxes Other Than Income	21,412	21,412
5.	Depreciation	52,915	52,915
6.	Interest	0	0
7.	State Tax	0	5,753
8.	Sub-total Deduction	477,778	483,531
9.	Net Taxable Income for State Tax	59,922	
10.	State Tax	5,753	
11.	Total State Tax	5,753	
12.	Net Taxable Income for FIT		54,169
13.	Federal Income Tax		9,501
			9,501