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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3365
DATE: June 15, 1987

R E S O L U T I O N

(RES. W-3365), HACIENDA WATER COMPANY (HWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$6,784 OR
31.4% ADDITIONAL ANNUAL REVENUE IN 1987 AND A FURTHER
INCREASE OF \$431 OR 1.5% IN 1988.

HWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on November 4, 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 \$16,890 or 81.6% in 1987 and \$2,450 or 5.8% in 1988. HWC estimates that 1987 gross revenue of \$20,710 at present rates would increase to \$37,600 at proposed rates and would produce a rate of return of 11.02% on rate base. HWC serves about 140 metered and 16 flat rate customers in the community of Hacienda located 20 miles west of Santa Rosa, Sonoma County.

The present rates have been in effect since April 1, 1982 pursuant to Resolution No. W-2954, dated March 16, 1982, which authorized a general rate increase.

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

The difference in the estimates of revenues is due to HWC's failure to include revenues from four customers whose meters were inoperative, and to HWC's deduction of an uncollectible amount. Inoperative meter revenue should be estimated and included in total revenue in that it constitutes revenue available to HWC but not collected due to HWC's failure to properly maintain its meters, and uncollectibles, if any, should be accounted for in the appropriate expense account, not by reducing the estimates of revenue.

The differences in estimated expenses are in power, other volume related expenses, materials, transportation, uncollectibles, office rental, professional services, insurance, depreciation, property taxes, payroll taxes and income taxes.

In arriving at its \$4,270 figure for purchased power, HWC used 1986 power rates and estimated it would use the same amount of pumping power in 1987 as it did in 1985. The 1985 power usage was extraordinarily high because HWC replaced three storage tanks that year and had to substitute pumped water for its usual

spring water supply during the construction. No such construction is planned for the future, so the Branch's estimate is based on the average electric power usage per connection for the last eight years and the latest power rates.

HWC estimated nothing for other volume related expenses, instead combining its other volume related expenses into its \$1,050 materials expense estimate. The Branch examined both accounts, accepted HWC's total figure, and reclassified the amount as \$185 in other volume related expenses and \$865 in materials.

HWC's \$1,570 transportation expense estimate is based on a much higher mileage figure and cost per mile than the \$550 figure estimated by the Branch. HWC's owner uses his vehicle primarily to commute to his regular job and in his other business ventures. The Branch made an estimate of the mileage necessary to operate and maintain the water company and used \$0.21 per mile, the rate currently allowed by the Internal Revenue Service for business mileage.

HWC estimated \$500 in the uncollectibles expense category and another \$650 as a deduction to revenues as noted earlier. This is an extraordinary high percentage (3%) considering that most small water companies have uncollectibles ranging from zero to well under one percent. HWC has not kept its tariff book up to date and has not been applying deposit and cutoff procedures. The Branch believes that the rigorous application of its existing rules and conditions would effectively eliminate uncollectibles and has therefore estimated them as zero for ratemaking.

HWC estimated an office rental expense of \$690 for partial use of the owner's home which is also shared with other nonutility enterprises. The Branch believes its estimate of \$300 is a fair value for this use considering there is no area set aside as a utility office, it is distant from the service area, and HWC has recorded no expense in this category for previous years.

HWC's estimate for professional services of \$160 is based on the amount allowed in the previous rate case. In that proceeding HWC was admonished to acquire outside accounting help; HWC did not do so and its records are still very poorly maintained. The Branch's estimate for professional services is zero because HWC has recorded nothing for this account during the past three years. The Branch still recommends HWC obtain accounting assistance and include an appropriate expense amount in its next general rate case.

HWC's estimate for insurance is \$2,830 while Branch's estimate is zero. HWC carries no liability insurance at present. Should it later obtain insurance, HWC should apply for an offset under the Commission's liability insurance offset policy.

The Branch's estimate of depreciation expense is less than HWC's because the Branch had a lower plant balance based on reconstructing the plant accounts from the last rate case in 1982 forward as explained later. The Branch also used a slightly lower depreciation rate reflecting the longer projected lives of HWC's recent plant additions.

The Branch's estimate of property taxes is lower than HWC's. HWC's estimate of \$1,010 was based on a recent tax bill which included penalties and interest for

unpaid taxes in a previous period. The Branch's estimate of \$638 includes only property tax applicable to 1987. Penalties and unpaid back taxes should not be included as a normal property tax expense.

HMC's estimate of payroll taxes is \$1,030. The Branch found that no salaries have actually been paid but that the equivalent amount has been taken out of the company as net earnings. The Branch therefore believes that no allowance for payroll taxes should be made.

The differing estimates of income taxes are due to differing revenues, expenses and rate base.

The Branch's estimate of rate base is lower than HMC's because of differences in average plant, depreciation reserve, and materials and supplies.

The Branch's estimate of average plant is significantly lower than HMC's because the Branch went back to HMC's last general rate case in 1982 and corrected accumulated errors by recalculating the annual plant balances from that point forward. One major error causing a difference of \$8,930 occurred in 1982 when HMC recorded the plant improvements estimated for ratemaking purposes by the Branch as though they were accomplished plant additions. Other errors included failure to retire from the books the amount of old plant replaced by new installations. The Branch included \$1,624 as the replacement cost of a pump which burned out possibly due to a fault by the electric power company. HMC has filed a claim for damages. Should PG&E accept the responsibility for the damages and pay for the new pump it should be reflected on the books as a credit to plant. The Branch also included \$3,300 in its estimated 1987 additions as the cost of a replacement tank for one that is now leaking. The Branch should review whether PG&E compensated HMC for the pump and whether the new tank was installed when HMC files for the 1988 attrition step increase in November. Appropriate adjustments should be made to the step increase if warranted.

The Branch's estimate of depreciation reserve is lower than HMC's for the same reasons stated in the previous paragraph for average plant.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in HMC's annual reports, the Branch recommends that HMC 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 reflect those balances in its 1987 annual report to the Commission. Those balances are: plant in service, \$89,360 as of December 31, 1986; and reserve for depreciation, \$14,009 as of December 31, 1986.

The Branch's estimate of materials and supplies is \$1,000 higher than HMC's in reflection of HMC's recent acquisition of a standby pump and motor.

The summary of earnings submitted with HMC's rate increase request produces a rate of return on rate base of 20.23% at proposed rates. The Branch's summary of earnings shows a rate of return of 10.50% at its recommended rates. This is the mid point 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.

The attrition allowance is in the form of a step rate increase to compensate HWC for the anticipated drop in the return on rate base between 1987 and 1988 due to operating expenses rising faster than operating revenue, primarily because of inflation. An attrition allowance of \$431 for 1988 will maintain the Branch's recommended 10.50% rate of return on rate base.

HWC was informed of the Branch's differing view of revenues, expenses, 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 in mid November of 1986. Ten letters protesting primarily the size of the rate increase were received. One customer furnished a long list of alleged service deficiencies which were investigated by a Branch engineer and found mostly to be unsupported.

Approximately 35 customers attended a public meeting held on March 9, 1987 with the Branch staff and representatives of HWC. The major concern of the customers was the proposed high rates. Several customers complained of not having received sufficient advance notification when major system repairs required temporary shutoff of the water supply. HWC explained that it has tried to notify everybody in advance. However, notification is difficult because this is partially a resort area and premises are frequently vacant. No major construction which will require outages is scheduled in the near future, so the Branch believes no corrective action is necessary. Several customers praised the utility for its service considering the difficult terrain.

The Branch has 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 HWC's system was made on March 9 and 10, 1987 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 service is satisfactory. HWC's system is in compliance with the requirements of G.O. 103, Rules Governing Water Service.

The Sonoma County Environmental Health Department has stated that HWC meets state standards based on periodic tests which it conducts or monitors. HWC's multiple sources of water and storage facilities together provide ample water supply and most customers are metered. Therefore, a water conservation program is not needed at this time.

HWC serves mostly metered customers. HWC's 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. The Branch proposes to revise the metered schedule to a service charge which recovers 50.0% of HWC's fixed expenses 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 effective May 28, 1986 which calls for phasing out lifeline rates, allows for reduction of multiple blocks to a single block, and calls for recovery of up to 50% of fixed expenses through service charges.

At the Branch's recommended rates, the monthly bill for a typical metered rate customer would increase from \$11.75 to \$15.72 or 33.8%. A comparison of the present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$6,784 or 31.4% for 1987 and an attrition step increase of \$431 or 1.5% in 1988 at the recommended rates contained in Appendix B. These increases provide a 10.5% rate of return on rate base for both years.

FINDINGS

1. The Branch recommended summary of earnings (Appendix A) is reasonable and should be adopted.

2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.

3. The quantities (Appendix D) used to develop the Branch's recommendation are reasonable and should be adopted.

4. HMC 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 should reflect those balances in its 1987 annual report to the Commission. Those balances are: plant in service, \$89,360 as of December 31, 1986; and reserve for depreciation, \$14,009 as of December 31, 1986.

5. An attrition step increase of \$431 (1.5%) should be allowed for 1988.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Hacienda 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 Schedule Nos. 1 and 3. Such filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.

2. On or after November 15, 1987, Hacienda Water Company is authorized to file an advice letter, with appropriate workpapers, requesting an attrition step rate increase of \$431 or to file a lesser increase in the event that HMC's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments, for the 12 months ended September 30, 1987 exceeds 10.5%. Such filing shall comply with General Order 96-A. The requested rates shall be reviewed by the staff to determine their conformity with this resolution and shall go into effect upon the staff's determination of conformity. The staff shall inform the Commission if it finds that the proposed rates are not in accord with this resolution, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1988, or 40 days after the filing of the attrition rates, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof.

3. Hacienda 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 reflect those balances in its 1987 annual report to the Commission.

4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 15, 1987. The following Commissioners approved it:



VICTOR R. WEISSER
Executive Director

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

APPENDIX A

HACIENDA WATER COMPANY

SUMMARY OF EARNINGS
(Estimated Year 1987)

Item	: Utility Estimated :		: Branch Estimated :		: : : Rates : Rates : Rates : Rates : Adopted :
	: Present :		: Requested :		
	: Rates :	: Rates :	: Rates :	: Rates :	
<u>Operating Revenue</u>					
Flat	\$ 1,824	\$ 3,312	\$ 1,824	\$ 3,312	\$ 2,880
Metered	18,886	34,288	19,777	35,155	25,505
Total Revenues	<u>20,710</u>	<u>37,600</u>	<u>21,601</u>	<u>38,467</u>	<u>28,385</u>
<u>Operating Expenses</u>					
Purchased Power	4,270	4,270	3,143	3,143	3,143
Other Vol. Rel. Exp.	0	0	185	185	185
Materials	1,050	1,050	865	865	865
Contract Work	720	720	720	720	720
Trans. Exp.	1,570	1,570	550	550	550
Uncollectibles	500	500	0	0	0
Off. Serv. & Rent	690	690	300	300	300
Office Supply	930	930	930	930	930
Prof. Services	160	160	0	0	0
Insurance	2,830	2,830	0	0	0
Regulatory Exp.	700	700	700	700	700
General Expenses	40	40	40	40	40
Payroll	7,660	7,660	7,660	7,660	7,660
Sub-Total	<u>\$21,120</u>	<u>\$21,120</u>	<u>\$15,093</u>	<u>\$15,093</u>	<u>\$15,093</u>
Depreciation	2,330	2,330	1,773	1,773	1,773
Payroll & Prop. Taxes	2,040	2,040	638	638	638
Income Taxes	0	2,100	949	4,855	2,520
Total Expenses	<u>\$25,490</u>	<u>\$27,590</u>	<u>\$18,453</u>	<u>\$22,359</u>	<u>\$20,024</u>
Net Revenue	(\$ 4,780)	\$10,010	\$ 3,148	\$16,108	\$ 8,361
<u>Rate Base</u>					
Average Plant	111,590	111,590	90,172	90,172	90,172
Average Depr. Res.	24,125	24,125	14,896	14,896	14,896
Net Plant	87,465	87,465	75,276	75,276	75,276
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	2,500	2,500	2,500	2,500	2,500
Matls & Suppls	850	850	1,850	1,850	1,850
Rate Base	\$90,815	\$90,815	\$79,626	\$79,626	\$79,626
Rate of Return	Loss	11.02%	3.95%	20.23%	10.50%

APPENDIX B

Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service rendered monthly on a metered basis.

TERRITORY

In and in the vicinity of the unincorporated community of Hacienda,
Sonoma County.

RATES

<u>Service Charge</u>	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 6.00	(I)
For 3/4-inch meter	6.60	
For 1-inch meter	9.00	
For 1-1/2-inch meter	12.60	(I)

Quantity Rates

Per 100 cu.ft.	1.62	(I)
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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
Page 2

Schedule No. 3

ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service rendered annually on a flat rate basis.

TERRITORY

In and in the vicinity of the unincorporated community of Hacienda,
Sonoma County.

RATE

Per Year

Annual flat rate for each single family dwelling or commercial establishment	\$180.00	(I)
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SPECIAL CONDITIONS

1. The annual charge is payable in advance and is applicable for a calendar year.
2. Meters may be installed at the option of the utility, in which event service thereafter will be rendered only on the basis of Schedule No. 1, General Metered Service. A consumer's request for change from flat rate to metered service must be made in writing.

(End of Appendix B)

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>Present Rates</u>	<u>Recommended Rates</u>
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 5.00	\$ 6.00
For 3/4-inch meter	5.50	6.60
For 1-inch meter	7.50	9.00
For 1-1/2-inch meter	10.00	12.60

Quantity Rates:

First 300 cu.ft., per 100 cu.ft. ..	0.90	-
Over 300 cu.ft., per 100 cu.ft. ..	1.35	-
Per 100 cu.ft.	-	1.62

<u>FLAT RATE SERVICE</u>	<u>Per Service Per Year</u>		<u>Percent Increase</u>
Single family dwelling or commercial establishment	114.00	180.00	58

A monthly bill comparison for a 5/8 x 3/4-inch meter is shown below:

<u>Usage 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 5.00	\$ 6.00	\$ 1.00	20.0
3	7.70	10.86	3.16	41.0
6 (avg)	11.75	15.72	3.97	33.8
10	17.15	22.20	5.05	29.4
15	23.90	30.30	6.40	26.8
20	30.65	38.40	7.75	25.3
30	44.15	54.60	10.45	23.7
50	71.15	87.00	15.85	22.3
100	138.65	168.00	29.35	21.2

APPENDIX D
Page 1

ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Hacienda Water Company

Net-to-Gross Multiplier:	1.3014
Federal Tax Rate:	15.0%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0%
Business License:	0.0
Uncollectible Rates:	0%

Expenses Test Year 1987

1. Purchased Power (Electric)
Pacific Gas and Electric Company

Total Cost (\$)	\$3,143
kkh	34020
Eff. Sch. Date	9/7/86
\$/kkh used	0.09238
Rate Schedule	PA-1

2. Purchased Water: None
3. Pump Tax-Replenishment Tax: None
4. Payroll: \$7,660
5. Payroll Taxes none
6. Ad Valorem Taxes: \$638
Tax Rate 1.20%
Assessed Value \$53,165

APPENDIX D
Page 2

ADOPTED QUANTITIES
(1987 Test Year)

Service Connections

1. Meter Size	
5/8 x 3/4"	140
(6 additional connections considered inactive)	
2. Metered Water Sales Used to Design Rates:	
Total Ccf	9,516
3. Flat Rate	
Single family dwelling or commercial establishment	16

ADOPTED TAX CALCULATIONS

Line No.	Item	1987 Adopted Rates	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$28,385	\$28,385
2.	O & M Expenses	15,093	15,093
3.	Taxes Other Than Income	638	638
4.	Tax Depreciation	1,773	1,773
5.	State Income Tax	-	1,045
6.	Sub-total Deduction	17,504	18,549
7.	State Taxable Income	10,881	-
8.	State Income Tax	1,045	-
9.	Federal Taxable Income	-	9,836
10.	Federal Income Tax	-	1,475
11.	Total Income Tax	-	2,520

(End of Appendix D)

APPENDIX E

TO CUSTOMERS WHO HAVE WRITTEN TO THE COMMISSION REGARDING HACIENDA WATER COMPANY'S REQUEST FOR A 81.6% RATE INCREASE.

Dear Customer:

In November 1986, Hacienda Water Company (HWC) 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 81.6% in 1987. After considering all factors presented, the Commission has authorized an increase in gross annual revenues of \$6,784 or 31.4%. For a typical customer, this will mean an increase in the monthly bill from \$11.75 to \$15.72.

Following HWC'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 HWC'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 HWC's notice, ten customer letters were received protesting the magnitude of the increase. Subsequently, a public meeting was held on March 9, 1987.

The Commission is aware that the percentage increase granted is large; however, this utility has been operating intermittently at a loss for several years. In addition, HWC has had to replace three of its storage tanks in the past two years and may have to replace a fourth in the near future. The last increase was granted in 1982.

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 Ernst Knolle of our staff at (415) 557-1903.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch