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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3366
July 8, 1987

R E S O L U T I O N

(RES. W-3366), FOOTHILL DITCH COMPANY (FDC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$14,880
OR 28.6% ADDITIONAL GROSS ANNUAL REVENUE.

FDC, by draft advice letter accepted by the Water Utilities Branch (Branch) on February 13, 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 \$15,110 or 28.6%. FDC estimates that 1987 gross revenues of \$52,900 at present rates would increase to \$68,000 at proposed rates and would produce a rate of return of 9.10% on rate base. FDC serves 19 active irrigation customers east of Exeter, Tulare County.

The present rates have been in effect since March 5, 1982 pursuant to Resolution No. W-2939, dated February 17, 1982, which granted a 27.3% general rate increase.

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

The difference in operating revenues is due to a difference in estimates of water usage. FDC and the Branch agree on water deliveries and water sales covered by the minimum entitlements, but differ in predicting apparent sales (minimum entitlements plus sales of unused entitlements plus additional sales). FDC's apparent sales figure was derived by factoring up water deliveries based on an unsupported historical figure for the ratio of apparent sales to water deliveries while the Branch's is based on the average recorded apparent sales for the past six years.

The differences in estimates of expenses are in contract work, professional services, property taxes and income taxes.

FDC's contract work category includes the salary, benefits and payroll taxes of the ditch tender provided by Rocky Hill, Inc., the parent firm, and other miscellaneous services provided by Rocky Hill. FDC estimated \$27,300 for contract work by adding an amount to cover ditch cleaning, repairs and inflation to the average expense for the last five years. The Branch removed \$1,350 based on records showing the proportion of his time the ditch tender

worked for Rocky Hill rather than FDC, and reduced FDC's estimate by a further \$2,700 to reflect the fact that the major ditch cleaning included in FDC's estimate occurs only about every two years.

Both FDC and the Branch used the same average recorded professional services expense for the previous five years as a base and added an allowance for rate case consulting work spread over three years. FDC's estimate for rate case consulting of \$1,350 (\$450 per year) seriously underestimated the amount of work to be done. The Branch's estimate of \$4,950 (\$1,650 per year) for rate case consulting is based on later data and more closely approximates the actual amount FDC has spent.

The Branch's property tax figure is the sum of the current assessed valuation times the tax rate (\$342), an ongoing special assessment (\$50), and a one-time special assessment spread over three years (\$37). FDC's figure is lower because FDC made an error in transcribing figures and neglected a portion of the special assessments.

The Branch's figures for income taxes are higher than FDC's because FDC erroneously assumed it would pay only the \$200 minimum state tax and omitted any federal income taxes, while the Branch used the correct tax rates for both state and federal income taxes.

FDC and the Branch agree on all components of rate base except working cash. FDC bills monthly but used the Commission's standard method for calculating working cash that applies to companies that bill every second month. Because FDC bills monthly, it receives its revenues earlier and has a lower working cash requirement. The Branch's estimate corrects that error.

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

The Branch estimates that FDC's requested rates would produce a rate of return of 10.19% on rate base, less than the 10.25% to 10.75% standard return recommended for 100% equity water companies by the Accounting and Financial Branch of Evaluation and Compliance Division. The Branch therefore recommends that FDC be granted the full increased rates requested.

The authorized rate of return in the last general rate case is generally used to determine whether a utility's earnings are excessive when the Commission is considering granting rate relief for offsettable items. Therefore, the Branch recommends the Commission find a rate of return on rate base not exceeding 10.5% to be reasonable for the purpose of earnings tests for FDC in future offset requests.

Notice of the proposed rate increase was mailed to all customers on March 4, 1987. Three letters protesting the increase were received in response to the notice. A public meeting was held in FDC's office on April 28, 1987. Fifteen customers representing 8 of the 19 contract users attended and seven made statements. Customers were mainly concerned that FDC was being charged a disproportionate share of expenses by Rocky Hill, Inc., the parent company. Two of the three customers who wrote letters of protest were present and their

concerns were addressed. The Branch has sent a letter to the third explaining the Branch's recommendation.

A field investigation of FDC's system was made on March 25 and 26, 1987.

Visible portions of the irrigation system were inspected, company employees interviewed, and methods of operation checked.

Service is satisfactory and there are no outstanding Commission orders requiring system improvements.

FDC's system is strictly for irrigation purposes. The utility has an adjudicated right to divert Kaweah River water into a ditch about 11 miles long. Any water that is not used from the ditch goes back into the Kaweah River near the terminus of the ditch. All water flows by gravity and there are no pumping power costs. FDC has no balancing account.

At the Branch's recommended rates, all customers' bills will increase by 28.6%. A comparison of the present and recommended rates is shown in Appendix C.

The Branch recommends that FDC be authorized to increase its rates by \$14,880 or 28.6% which would increase gross annual revenues from \$52,080 at present rates to \$66,960 at the recommended rates contained in Appendix B. This increase provides a rate of return on rate base of 10.19% for test year 1987.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
3. For the purpose of earnings tests in any future offset rate increase requests, a rate of return on rate base not exceeding 10.50% should be considered reasonable.
4. The increased rates hereby authorized are justified and the present rates are, for the future, unjust and unreasonable.

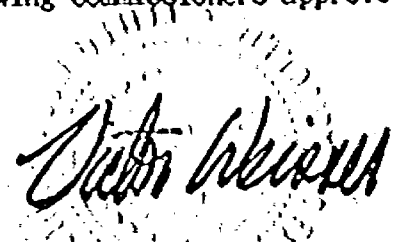
IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Foothill Ditch Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendices A and B, and concurrently to cancel the presently effective rate schedules. Such filing shall comply with General Order 96-A.
2. The effective date of the revised 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 July 8, 1987. The following Commissioners approved it:

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



VICTOR R. WEISSER
Executive Director

APPENDIX A

Foothill Ditch Company

SUMMARY OF EARNINGS
(Test Year 1987)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Proposed :	: Present :	: Proposed :	
	: Rates :	: Rates :	: Rates :	: Rates :	: Rates :
<u>Operating Revenue</u>					
Irrigation: Minimum	\$ 48,920	\$ 62,900	\$ 48,940	\$ 62,920	\$ 62,920
Irrigation: Additional	3,980	5,100	3,140	4,040	4,040
Total Operating Revenue	\$ 52,900	\$ 68,000	\$ 52,080	\$ 66,960	\$ 66,960
<u>Operating Expenses</u>					
Materials & Supplies	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500
Contract Work	27,300	27,300	23,250	23,250	23,250
Vehicle Expense	7,200	7,200	7,200	7,200	7,200
Office Salaries	2,400	2,400	2,400	2,400	2,400
Management Salaries	3,600	3,600	3,600	3,600	3,600
Office Supplies & Exp.	250	250	250	250	250
Professional Services	1,600	1,600	2,800	2,800	2,800
Insurance	7,150	7,150	7,150	7,150	7,150
General Expense	2,400	2,400	2,400	2,400	2,400
Total Expense	\$ 61,400	\$ 61,400	\$ 58,550	\$ 58,550	\$ 58,550
Depreciation Expense	1,420	1,420	1,420	1,420	1,420
Property Taxes	200	200	430	430	430
State Income Tax	200	200	200	630	630
Federal Income Tax	0	0	0	890	890
Total Deductions	\$ 63,220	\$ 63,220	\$ 60,600	\$ 61,920	\$ 61,920
Net Revenue	(10,320)	4,780	(8,520)	5,040	5,040
<u>Rate Base</u>					
Average Plant	118,930	118,930	118,930	118,930	118,930
Avg. Depreciation Res.	79,210	79,210	79,210	79,210	79,210
Net Plant	39,720	39,720	39,720	39,720	39,720
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	12,790	12,790	9,760	9,760	9,760
Materials & Supplies	0	0	0	0	0
Rate Base	\$ 52,510	\$ 52,510	\$ 49,480	\$ 49,480	\$ 49,480
Rate of Return	(loss)	9.10%	(loss)	10.19%	10.19%

APPENDIX B
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Schedule No. 34

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service.

TERRITORY

The area served by the utility's canal system in Tulare County.

RATES

	<u>Each Miner's Inch*</u> <u>Applied for</u> <u>Per Irrigation Season</u>	
Minimum Charge	\$135.00	(I)
	<u>Per Miner's Inch*</u> <u>Days of 24 Hours</u>	
Quantity Rates	\$ 0.90	(I)

The Minimum Charge will entitle the customer to the quantity of water which would be purchased at Quantity Rates.

SPECIAL CONDITIONS

1. Water supplied under this schedule will be untreated water from open canals, ditches and conduits. The utility does not represent any water delivered hereunder to be potable nor of quality suitable for human consumption.

2. Water will be delivered by utility at its ditch. Water deliveries from utility's ditch to premises of customer shall be the responsibility of the customer.

*Note: A miner's inch shall mean a continuous flow equal to 1/50th of a cubic foot per second.

APPENDIX B

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Schedule No. 9M

MEASURED GROUND WATER RECHARGE SERVICE

APPLICABILITY

For all water service delivered for ground water replenishment purposes.

TERRITORY

In the vicinity of and adjacent to the Foothill Ditch.

RATES

	<u>Per Acre Foot</u>	
For all water delivered.....	\$ 2.45	(I)

SPECIAL CONDITIONS

1. Water supplied under this schedule will be untreated water from open canals, ditches and conduits. The utility does not represent any water delivered hereunder to be potable nor of quality suitable for human consumption.
2. Water supplied under this schedule will be the excess water over and above that purchased by irrigation customers. The utility does not represent that there will be any deliveries except as such excess water is available.

APPENDIX C
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COMPARISON OF RATES

A comparison of present rates with those recommended by the staff is shown below:

	<u>Present</u>	<u>Recommended</u>	<u>Increase</u>
<u>Schedule No. 3M</u> <u>MEASURED IRRIGATION SERVICE</u>			
Minimum Charge - Each miner's inch applied for per irrigation season	\$105.00	\$135.00	28.6%
Quantity Rate - Per miner's inch day of 24 hours	\$ 0.70	\$ 0.90	28.6%
<u>Schedule No. 9M</u> <u>MEASURED GROUND WATER RECHARGE SERVICE</u>			
For all water delivered - per acre foot	\$ 1.90	\$ 2.45	28.9%

APPENDIX C

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COMPARISON OF MONTHLY BILLS

Comparisons of monthly bills at present and recommended rates are shown below. Customers are obligated to pay for their entire entitlement even if only partially used.

<u>Entitlement*</u> <u>Miner's inches</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percent</u>
1	\$ 21.00	\$ 27.00	\$ 6.00	28.6%
2	42.00	54.00	12.00	28.6
5	105.00	135.00	30.00	28.6
10	210.00	270.00	60.00	28.6
20	420.00	540.00	120.00	28.6
50	1,050.00	1,350.00	300.00	28.6
100	2,100.00	2,700.00	600.00	28.6
150	3,150.00	4,050.00	900.00	28.6

*A miner's inch is a continuous flow of 1/50th of a cubic foot per second.

APPENDIX D

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ADOPTED QUANTITIES
(Test Year 1987)

Name of Company: Foothill Ditch Company

Net-to-Gross Multiplier:	N/A
Federal Tax Rate:	15%
State Tax Rate:	9.6%
Business License:	0
Uncollectible Rates:	0

Expenses

Purchased Power:	None
Purchased Water:	None
Pump Tax - Replenishment Tax	None
<u>Payroll and Employee Benefits</u>	
Operations and Maintenance Payroll	\$14,480
Administrative & Office Salaries	<u>\$ 6,000</u>
Total	\$20,480

Payroll Taxes	\$ 1,010
Ad Valorem Taxes	\$ 430
Tax Rate	1.2859%
Assessed Value	\$33,440

Service Connections (Ditch Outlets)	
Active	19
Inactive	<u>8</u>
Total	27

Water Sales used to Design Rates	74,400 <u>1/</u>
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1/ Miner's Inch Days including 69,910 contract minimum.

APPENDIX D
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ADOPTED TAX CALCULATIONS
1987 Test Year

FOOTHILL DITCH COMPANY

:Line:		: State	: Federal
: No.:	Item	: Tax	: Tax
1	Operating Revenues	\$66,960	\$66,960
2	O&M Expenses	58,550	58,550
3	Taxes Other Than Income	430	430
4	Depreciation Expense	1,420	1,420
5	Interest	0	0
6	State Tax		630
7	Taxable Income for State Tax	6,560	
8	State Tax (9.6%)	\$ 630	
9	Taxable Income for FIT		\$ 5,930
10	Federal Income Tax (15%)		890