

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

W-1

EVALUATION & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3368
August 26, 1987

RESOLUTION

(RES. W-3368) AGATE BAY WATER COMPANY (ABWC), ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$17,411
OR 28.28% ADDITIONAL ANNUAL REVENUE.

ABWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on February 18, 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 \$28,220 or 45.8%. ABWC estimates that 1987 gross revenue of \$61,560 at present rates would increase to \$89,780 at proposed rates and would produce a rate of return of 11.95% on rate base. ABWC serves about 509 flat rate customers in Agate Bay on the northwest shore of Lake Tahoe, in Placer County.

The present rates have been in effect since October 25, 1983 pursuant to Resolution No. W-3091, dated April 20, 1983, which authorized a general rate increase.

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

The differences in estimated expenses are in purchased power, materials, transportation expense, other plant maintenance expense (includes plant operations and maintenance expenses not related to volume of water sold, and not separately provided for in other accounts), office salaries, management salaries, accounting and legal expenses, insurance, regulatory commission expense, depreciation, and payroll and income taxes.

Although the Branch and ABWC used the same purchased power consumption figures, the Branch's estimate of purchased power expense is lower because the Branch used the latest Sierra Pacific Power Company power rates which are lower than the rates used by ABWC in its estimates.

ABWC based its materials expense on the average of the recorded 1985 and estimated 1986 expenses because the recorded 1986 data was not available when ABWC prepared its estimate. However, the 1986 recorded amount of \$921 is much lower than the \$3,985 estimated by ABWC for 1986. Due to the fluctuating nature of this account, the Branch analyzed several years of data prior to 1985 to arrive at its estimate of materials expense of \$2,720 for 1987.

ABWC and the Branch estimated the same number of miles as reasonable for vehicle travel to conduct utility business, however, their transportation expense estimates for the test year differ. ABWC used a cost of 23.8 cents per

mile in its calculation while the Branch used 21 cents per mile, which is the rate currently allowed by the Internal Revenue Service for businesses. ABWC's work papers did not show any justification for the 23.8 cents per mile cost it used.

The Branch's estimate of other plant maintenance expense is \$5,490 versus ABWC's much higher estimate of \$13,560. The difference is due to differences in how the base maintenance estimates were developed and how deferred maintenance was treated for ratemaking. ABWC's base estimate for the test year is based on its 1985 recorded amount, which was unusually high due to major leak repairs on water mains. Because of the fluctuating nature of this account, the Branch based its estimate on the average recorded amounts for 1984, 1985, 1986 and believes this provides a more reasonable estimate. With respect to the treatment of deferred maintenance, the Branch in keeping with past Commission decisions for water utilities amortized it over a three-year period which coincides with the rate-case cycle for water utilities. ABWC used a two-year period for amortization.

ABWC's estimates of office and management salaries of \$10,000 and \$12,000, respectively, are the recorded 1985 figures which mistakenly include payroll taxes. The Branch believes recorded 1985 office and management salaries to be reasonable for a utility of ABWC's size and operating characteristics and therefore also based its estimates of these categories on recorded 1985 expenses adjusted for inflation to 1987 but excluded payroll taxes. To adjust for inflation, the Branch relied on escalation factors provided by the Research Branch of the Evaluation and Compliance Division (ECD).

The difference in the estimates of accounting and legal expenses results from the Branch's use of additional information relating to water rights litigation not considered by ABWC at the time it prepared its estimate.

The Branch's estimate of insurance expense differs from ABWC's because it was based on the actual premium billed the utility which was not available to the utility when it prepared its estimate.

ABWC, while intending to, did not include a regulatory commission expense in its estimate for the test year. After a review of the utility's records and work performed by its consultant, the Branch estimated that for a utility of ABWC's size and operating characteristics, a regulatory commission expense of \$600 per year is reasonable.

The difference in the estimates of depreciation expense is due to the difference in the estimates of plant discussed later.

The Branch's estimate of payroll taxes in the test year is less than ABWC's because of the Branch's lower estimate of payroll.

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

The Branch's estimate of rate base is lower than ABWC's because of differences in utility plant and depreciation reserve.

The Branch's estimate of average utility plant differs from ABWC's because: (1) the Branch corrected errors found in the utility's recorded plant accounts in two years, 1976 and 1985, which reduced the utility plant carried forward to the present; (2) the Branch added \$2,000 for the purchase of a chlorinator in 1987 which ABWC did not anticipate (see discussion on service); and (3) ABWC included in its estimate \$1,500 for a storage tank alarm system to have been installed in 1986. The installation was delayed until 1987, so the Branch removed the \$1,500 amount from plant additions in 1986 and included it as a plant addition in 1987.

The Branch's estimate of depreciation reserve is lower than ABWC's because of the Branch's lower estimate of utility plant.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in ABWC's 1987 annual report, the Branch recommends that ABWC be directed to record on its books of account the utility plant and depreciation reserve balances upon which the average amounts adopted in this resolution are based. Those balances for plant in service and depreciation reserve as of January 1, 1987 were \$174,131 and \$104,250 respectively.

The Branch estimates that ABWC's proposed rates would produce a rate of return on rate base of 21.90%. This is well above the rate of return range (10.25% to 10.75%) recommended for small water utilities with 100% equity financing by ECD's Accounting and Financial Branch. The Branch recommends as reasonable the midpoint rate of return of 10.5% for ABWC.

ABWC was informed of the differences in 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 February 25, 1987. Twenty-three letters were received concerning the increase. All of the letters protested the magnitude of the rate increase. Other complaints or comments included: (1) part-time residents should pay less because they use less water, (2) several customers requested metered service, and (3) one customer could not contact ABWC in an emergency situation. In regards to emergency contact, the Branch asked ABWC to initiate an emergency contact procedure and ABWC has taken the following steps to alleviate the problem: (1) an emergency phone number has been established (home phone of the system operator); (2) an emergency phone number has been listed in the local telephone directory and printed on ABWC's bills; (3) an answering machine has been made available when the operator is not at home; and (4) arrangements have been made to monitor the emergency number when the system operator is on vacation.

Concerning the requests by customers for meters, the Branch believes that there is no economic justification for metering at this time because ABWC has an ample water supply. The Branch estimates that it would cost ABWC about \$100,000 to install meters for its present customers. To recover these costs, ABWC would have to raise its rates for each customer by \$2.25 per month. In addition, meters would have to be read and bills computed, and this would cause operating expenses to go up.

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.

A field investigation of ABWC's system was made by a Branch engineer on April 7 and 8, 1987. Visible portions of the system were inspected, pressures checked, company records researched and customers interviewed. At the time of the inspection ABWC's chlorinator was broken. The utility representative explained that they were awaiting a part and the chlorinator would be back in operation within two weeks. Because of difficulty in acquiring the required part, the chlorinator was not fixed and back in operation until June, 1987.

A California Department of Health Services (DHS) representative investigated the chlorinator situation on June 18, 1987 and found that it had been out of service from January to June 1987. According to DHS, continuous chlorination of lake water is an essential safeguard to assure that the water supply is safe and to have lake water not disinfected when in use could present a very serious water contamination problem. To insure that a lapse of this nature could not happen again, DHS has requested that ABWC purchase a complete stand-by chlorinator and keep it in storage at the pump house so it can be quickly installed if the existing chlorinator should ever again fail. The Branch concurs and recommends that ABWC be required to purchase a complete stand-by chlorinator and have it ready for emergency use within 45 days of the effective date of this resolution.

ABWC has two water supply sources; a spring located at the top of the system as its primary source and Lake Tahoe as a back-up with storage for each source. ABWC's multiple sources of water and storage facilities together provide ample water supply.

With the exception of the broken chlorinator, the Branch's investigation indicated that service is satisfactory. There are no outstanding Commission orders requiring system improvement.

ABWC's present rates consist of a metered rate schedule, a residential flat rate schedule, and a limited flat rate schedule, for a recreation club. The Branch proposes to increase both flat rate schedules by the system average increase authorized by this resolution.

ABWC currently has no metered customers and has no plans to install meters in the immediate future. ABWC would, however, like to retain its option to meter according to Schedule 1 as provided by Special Condition 1 of Schedules 2A and 2AL. The Branch concurs.

ABWC'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 include a service charge which would recover 50.0% of ABWC's fixed expenses and a single metered quantity rate. This is consistent with the Commission's rate design policy for 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 flat rate residential customer would increase from \$10.00 to \$12.83 or 28.28%. A comparison of the present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$17,411 or 28.28% for 1987 at the recommended rates in Appendix B. This increase provides a 10.5% rate of return on rate base in 1987.

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. ABWC should be required to record on its books of account the utility plant and depreciation reserve balances upon which the average amounts adopted in this resolution are based. The balances for utility plant in service and depreciation reserve as of January 1, 1987 were \$174,131 and \$104,250 respectively.
5. ABWC should be required to purchase a complete stand-by chlorinator and have it ready for emergency use within 45 days of the effective date of this resolution.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Agate Bay 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. 1A, 2A and 2AL. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedules shall be the date of filing.
2. Agate Bay Water Company shall record in its books of account the utility plant and depreciation reserve 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.
3. Agate Bay Water Company shall purchase a complete stand-by chlorinator and have it ready for emergency use within 45 days of the effective date of this resolution.
4. This Resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on August 26, 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

Agate Bay Water Company

SUMMARY OF EARNINGS
(Estimated Year 1987)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present : : Rates :	: Requested: : Rates :	: Present : : Rates :	: Requested: : Rates :	
Operating Revenues	\$ 61,560	\$ 89,780	\$ 61,560	\$ 89,780	\$ 78,971
Operating Expenses					
Purchased Power	3,010	3,010	2,750	2,750	2,750
Employee Labor	8,080	8,080	8,080	8,080	8,080
Materials	3,310	3,310	2,720	2,720	2,720
Contract Work	2,700	2,700	2,700	2,700	2,700
Transportation Expense	1,500	1,500	1,320	1,320	1,320
Oth Plt Maint. Exps.	13,560	13,560	5,490	5,490	5,490
Office Salaries	10,000	10,000	9,740	9,740	9,740
Management Salaries	12,000	12,000	11,690	11,690	11,690
Off. & Stor. Rental	2,400	2,400	2,400	2,400	2,400
Off. Supplies & Exp.	900	900	900	900	900
Acct. & Legal Exps.	3,200	3,200	3,410	3,410	3,410
Insurance	5,250	5,250	5,170	5,170	5,170
Reg. Comm. Exp.	0	0	600	600	600
General Expense	1,190	1,190	1,190	1,190	1,190
Subtotal	\$ 67,100	\$ 67,100	\$ 58,160	\$ 58,160	\$ 58,160
Depreciation	5,980	5,980	5,880	5,880	5,880
Property Taxes	2,400	2,400	2,400	2,400	2,400
Payroll Taxes	2,800	2,800	2,574	2,574	2,574
Income Taxes	200	2,710	200	4,809	2,306
Total Expenses	\$ 78,480	\$ 80,990	\$ 69,214	\$ 73,823	\$ 71,320
Net Revenues	(\$ 16,920)	\$ 8,790	(\$ 7,654)	\$ 15,957	\$ 7,651
Rate Base					
Average Plant	\$181,280	\$181,280	\$178,556	\$178,556	\$178,556
Avg. Depr. Reserve	109,210	109,210	107,190	107,190	107,190
Net Plant	72,070	72,070	71,366	71,366	71,366
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Mat'l's & Suppls.	1,500	1,500	1,500	1,500	1,500
Rate Base	\$ 73,570	\$ 73,570	\$ 72,866	\$ 72,866	\$ 72,866
Rate of Return	Loss	11.95%	Loss	21.90%	10.50%

APPENDIX B

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Schedule No. 1 (T)

METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Monthly Service Charge:		
For 5/8 x 3/4-inch meter.....	\$ 6.05	(I)
For 3/4-inch meter.....	6.60	
For 1-inch meter.....	9.00	
For 1-1/2-inch meter.....	12.05	
For 2-inch meter.....	16.05	(I)
Quantity Rate:		(T)
Per 100 cubic feet.....	0.46	(C) (I)
		(D)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

(T)

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Schedule No. 2A

ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Annual Flat Rate

Residential use, payable in advance or on before
January 1 of each year..... \$153.95 (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, Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or about that same day. (T)
(T)

2. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance payable in two equal installments. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. Where a resident has failed to pay the first half of the annual charge due January 1, service will be discontinued and will not be restored until the total annual charge has been paid.

(Continued)

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Schedule No. 2A

ANNUAL FLAT RATE SERVICE

SPECIAL CONDITIONS

3. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

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Schedule No. 2AL

LIMITED ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to flat rate service only to the Sun Club furnished on an annual basis.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Annual Flat Rate

Recreation Club use, payable in advance on or
before January 1 of each year..... \$461.80 (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, Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period of time has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or about the same day. (T)

APPENDIX C
COMPARISON OF RATES

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

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
	<u>Per Meter</u>	<u>Per Month</u>	
<u>METERED SERVICE</u>			
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft.....	\$.31	N/A	N/A
Over 300 cu.ft., per 100 cu.ft.....	.40	N/A	N/A
Per 100 cubic feet.....	N/A	\$ 0.46	N/A
Service Charge:			
For 5/8 x 3/4-inch meter.....	\$ 4.70	\$ 6.05	28.7%
For 3/4-inch meter.....	5.15	6.60	28.2
For 1-inch meter.....	7.00	9.00	28.6
For 1-1/2-inch meter.....	9.40	12.05	28.2
For 2-inch meter.....	12.50	16.05	28.4
<u>ANNUAL FLAT RATE SERVICE</u>			
Residential Use.....	\$120.00	\$153.95	28.3%
Sun Recreation Club.....	\$360.00	\$461.80	28.3%

APPENDIX D
Page 1

ADOPTED QUANTITIES
(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 - Test Year 1987

1. Purchased Power:		
Electric:		
Sierra Pacific Power Company, Reno Nevada		
Total Cost (\$)		\$ 2,750
kWh Used		32,700
Eff. Sch. Date		1/1/87
Eff. Sch. Rate (\$/kWh)		0.08308
\$/kWh Used		0.08308
Schedule		A-1
2. Purchased Water:		None
3. Pump Tax-Replenishment Tax:		None
4. Payroll and Employee Benefits:		\$ 29,510
5. Ad Valorem Taxes		\$ 2,400
Assessed Value		\$180,980
Tax Rate		1.33%

Service Connections:

1. Metered.....		0
2. Flat Rate		
Residential		508
Non-Residential.....		<u>1</u>
Total		509

APPENDIX D
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ADOPTED TAX CALCULATIONS

:Line: :No.:	Item	: At Adopted Rates :	
		: State : Tax	: FIT
1	Operating Revenues	\$78,971	\$78,971
2	O&M Expenses	29,420	29,420
3	A&G Expenses	28,740	28,740
4	Taxes Other Than Income	4,974	4,974
5	Depreciation	5,880	5,880
6	Interest	0	0
7	State Tax	-	956
8	Subtotal	9,957	9,001
9	Net Taxable Income for State Tax	9,957	
10	State Tax	956	
11	Total State Tax	956	
12	Net Taxable Income for FIT		9,001
13	Federal Income Tax		1,350
14	Total FIT		1,350

APPENDIX E

TO CUSTOMERS WHO HAVE WRITTEN TO THE COMMISSION REGARDING AGATE BAY WATER COMPANY REQUEST FOR A 45.8% RATE INCREASE.

Dear Customer:

On February 25, 1987, Agate Bay Water Company (ABWC) 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 45.8% in 1987. After considering all factors presented, the Commission has authorized an increase in gross annual revenues of \$17,411 or 28.28%. For a typical flat rate customer, this will mean an increase in the monthly bill from \$10.00 to \$12.83.

Following ABWC'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. After completing its independent analysis, the staff recommended that the Commission authorize an increase. The major reason for the increase is to cover increased operating expenses.

In response to ABWC's notice, 23 customer letters were received. All of the letters protested the magnitude of the increase. Other complaints and comments included: (1) part-time residents should pay less because they use less water; (2) requests for metered service; and (3) one customer could not contact ABWC in an emergency situation.

With reference to your comments regarding part-time customers and occasional usage, unfortunately, most of the expenses incurred by a water utility are fixed. These fixed costs such as property tax, depreciation, plant maintenance and repair are necessary throughout the year to insure that the utility can continue to serve its customers and are independent of how much water is used by individual customers. The Commission believes that requiring all customers to share evenly in these costs is not unreasonable.

With respect to the requests by customers for meters, it would cost ABWC about \$100,000 to install meters for its present customers. To recover these costs, ABWC would have to further raise its rates for each customer in excess of \$2.25 per month. The usual reason for metering is to conserve water. In light of the costs to meter, the Commission has determined that there is no economic justification for it at this time because ABWC does not face a water shortage, and in fact has an ample supply of water. However, if a majority of ABWC's customers wish to have metered service, and are willing to pay for it, they should write and let us know so that we can examine this further.

With regard to the emergency contact complaint, ABWC has taken the following steps to alleviate the problem: (1) an emergency telephone number has been established; (2) the emergency telephone number has been listed in the telephone directory and printed on ABWC's bills; (3) an answering machine is available when the operator is not at home; and (4) arrangements have been made to monitor the emergency number when the system operator is on vacation.

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 Art Jarrett of our staff at (415) 557-1848.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch