

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3374
November 25, 1987

R E S O L U T I O N

(RES. W-3374) GROVE WATER SERVICE (GWS). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$3,844 OR 19.3% ADDITIONAL ANNUAL REVENUE.

GWS, by draft advice letter accepted by the Water Utilities Branch (Branch) on August 4, 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 \$7,443 or 38.2%. GWS estimates that 1988 gross revenue of \$19,460 at present rates would increase to \$26,902 at proposed rates and would produce a rate of return on rate base of 10.88%. GWS serves 85 flat rate and 58 metered customers in Walnut Grove, Sacramento County.

The present rates were established by Resolution No. W-2769, dated January 6, 1981, which granted a 74% general rate increase.

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

The Branch's estimate of operating revenue at present and proposed rates is higher than GWS's. The difference is due to the differing estimates of metered revenue. GWS arrived at its 1988 metered revenue estimate at present rates by escalating its 1987 metered revenue estimate by 8.0%. The Branch's estimate is based on the average water consumption for the recorded period 1983-1987 to date, and its estimated number of metered customers for 1988. GWS's recorded water sales for metered customers have fluctuated in the last several years. The Branch's use of five years of data provides a broader base and therefore a more reliable estimate.

The differences in estimates for operating expenses are in power, contract work, transportation, uncollectible accounts, office supply, professional services, insurance, regulatory commission expense, property taxes, franchise tax, and income taxes.

The Branch's expense estimate for purchased power is higher than GWS's. GWS estimated its power costs for the 1988 test year by increasing its 1986 recorded cost of \$3,365 by \$35. GWS did not provide workpapers to substantiate this increase. The Branch's estimate is based on the average annual kilowatt hours of electrical energy used per customer as determined from GWS's recorded energy bills over the last five years, the latest power rates (effective July 1, 1987) and the Branch's estimate of average customers for 1988.

The Branch's expense estimate for contract work is lower than GWS's. GWS's estimate is loosely based on its experienced cost over the last several years without supporting work papers. The Branch estimate consists of \$340 for water testing, \$980 for pump repairs, and \$1,400 for leak repairs. The Branch's leak repairs and water testing components are consistent with the 1986/87 levels of these expenses adjusted for inflation. The major difference appears to arise from a \$2,808 pump overhaul expense GWS experienced in 1986. The Branch recognizes that such overhauls will occur periodically, but not annually, and has therefore amortized the inflation adjusted pump repair amount over the three-year rate case cycle. All of the escalation factors the Branch used for this and other accounts were those provided by the Advisory, Evaluation and Research Branch of Commission Advisory and Compliance Division.

The Branch's estimate for transportation expense is slightly lower than GWS's. GWS arrived at its 1988 estimate by increasing its 1986 recorded expense by about 20%. GWS did not provide documentation to substantiate its 1988 increase, but did provide information on its 1986 transportation expenses. The Branch used this information to project a mileage figure for 1988, and used \$0.21 per mile to arrive at its estimate. \$0.21 per mile is the rate currently allowed by the Internal Revenue Service for businesses.

The Branch's estimate of uncollectible accounts expense is lower than GWS's. GWS's estimate represents more than 1% of estimated revenue and is based on its experience with a single customer who discontinued service without payment in late 1986. Since GWS has not recorded any uncollectible revenues in the preceding several years, the Branch has used a rate of 0.5%, which reflects more closely the actual operating conditions of similar sized water companies.

The Branch's estimate of office supply expense is lower than GWS's. GWS did not provide information to substantiate its estimate. The Branch's estimate of \$840 for billing expense, \$1,020 for utility expense, and \$200 for incidental and miscellaneous expenses is based on an examination of GWS's books to ascertain the current level of these costs.

The Branch's estimate of professional services is lower than GWS's. GWS's estimate consists of \$300 for accounting services, and \$600 for legal services in connection with obtaining right-of-way for a non-recurring system improvement project and collection of unpaid water bills. The Branch accepted GWS's estimates since they were based on the current level of costs, but has spread the legal costs over a three-year rate cycle to reflect the fact that they occur less frequently than annually.

The Branch's estimate of insurance expense is lower than GWS's. GWS did not provide supporting documents to substantiate its estimate. The Branch used GWS's current actual insurance cost.

GWS's figure for regulatory commission expense consists of its user fees estimate, although it did not include user fees in its revenue estimate. User fees are not considered as revenue or expense for rate-making purposes.

The Branch's estimate of property tax is lower than GWS's. GWS did not provide supporting documents to substantiate its estimate. The Branch's estimate is based on GWS's most recent tax bill, supplemented with information received

from the Sacramento County Assessor's office.

The current Sacramento County franchise tax rate is 2% of gross revenues. The Branch and GWS have differing estimates of franchise taxes because of their differing revenue estimates, and because GWS calculated its franchise tax figures only at proposed rates, then used that figure for present rates also.

The Branch's income taxes are based on its estimates of expenses and revenues, while GWS used a single unsupported lump sum for income taxes at present and proposed rates.

The differences in rate base are due to differences in average plant, average depreciation reserve, and working cash.

The Branch's estimate of average plant is slightly higher than GWS's because GWS rounded its estimated average plant figure.

The Branch's estimate of average depreciation reserve is lower than GWS's. Both the Branch and GWS used a depreciation rate of 3% and the Commission's standard method of calculating depreciation expense, but the Branch went back to GWS's last general rate case in 1981 and corrected accumulated errors by recalculating the reserve from that point forward.

The Branch's estimate of working cash is lower than GWS's. The Branch's estimate is based on its estimated revenues and expenses and the Commission's Standard Practice U-16, Determination of Working Cash Allowance. GWS did not provide workpapers to support its estimate.

The summary of earnings submitted with GWS's rate increase request produces a rate of return on rate base of 10.88% at proposed rates. The Branch's summary of earnings shows a rate of return of 10.50% at its recommended rates. This is the midpoint 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 Commission Advisory and Compliance Division.

GWS was informed of the Branch's differing view of revenues, operating expense, taxes, 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 by GWS on July 20, 1987. No protest letters were received.

A public meeting was held on July 29, 1987 with representatives from the Branch and GWS to explain the increase request and answer customers' questions. Approximately 14 of GWS's customers attended the meeting. In general, the customers complained about the amount of the increase, water quality problems, low pressures, the inequity in the rates for the flat and metered customers, and their inability to contact GWS's personnel in emergencies.

Regarding water quality problems, GWS's representatives explained that the water is safe to drink and meets state standards based on recent tests conducted by the Sacramento County Department of Health Services (SCDHS). This has been verified by the Branch with SCDHS.

Concerning low pressures, GWS's representatives explained that the system was constructed in the 1920's with 2-inch mains, that the system pressure is constantly maintained at about 50 pounds per square inch, and that in their opinion, low pressure in certain houses is due to the age and size of the system's mains. However, they indicated that they were in the process of adding new and larger size mains and that this would aid in providing higher operating pressures in the water system. The Branch does not recommend ordering specific corrective actions at this time because its field investigation indicated that pressures were in accordance with the Commission's General Order 103 (G.O. 103), Rules Governing Water Service. It does, however, support GWS's main replacement plans.

To address the inequity in the rates for the metered and flat rate customers, GWS's representative explained that they have requested the Commission apply most of the rate increase to the flat rate charge since the present metered rate charge is substantially higher than the flat rate charge at all but the lower usage levels.

Regarding the customers' inability to contact GWS's personnel during emergencies, the owners explained that they do not live in the service area but do have a message recording device to handle emergency calls when utility personnel are not available. However, they promised to hire a representative in the service area to handle emergency cases. The Branch has verified that GWS hired a part-time employee for this purpose on August 1, 1987.

The Branch drafted a letter of reply to customers who requested information concerning the Commission's action on this increase. The draft letter is attached as Appendix E and will be mailed after this resolution is signed.

A field investigation of GWS's water system was made on July 30, 1987 by a member of the Branch. Visible portions of the water system were inspected, pressures checked, company employees interviewed, and methods of operations reviewed. The investigation indicated that while service is satisfactory, GWS's system is not in compliance with the requirements of G.O. 103 in that GWS does not have a current system map and does not maintain water production records. GWS has production meters but does not read them regularly. The Branch recommends GWS be ordered to maintain water production records because they are necessary to allow GWS to monitor leakage, pump efficiencies, excessive water usage, etc. There are no outstanding Commission orders requiring system improvements.

GWS obtains its water from two wells within its service area. GWS currently does not have a water conservation program. However, GWS has expressed its intention to meter future customer additions and customers suspected of excessive water usage. GWS's source of water and storage facilities together provide ample water supply to meet present and future demands. A water conservation program is not needed at this time.

GWS's has a flat rate and a metered rate schedule. The metered rate schedule consists of a monthly 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 and a single metered quantity block. This is consistent with the Commission's rate design policy for water companies established by D.86-05-064 which calls for fewer rate blocks, the elimination of lifeline, and service charges which cover up to 50% of fixed costs.

Because of the inequity in rates, GWS requests and the Branch concurs that most of the revenue increase be applied to the flat rate charge. At the Branch's recommended rates, the monthly bill for a typical flat rate customer would increase from \$8.55 to \$11.80 or 38.0% while the monthly bill for the typical metered customer increases from \$14.80 to \$15.10 or 2.0%. A comparison of the present and recommended rates is shown in Appendix C. The small increase recommended for metered customers is due to eliminating the lifeline discount.

The Branch recommends that the Commission authorize an increase of \$3,844 or 19.3% which would increase estimated annual operating revenue from \$19,876 at present rates to \$23,720 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 Water Utilities Branch, is that:

- a. The Branch 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.
- d. GWS should be ordered to prepare and keep current a system map as required by Paragraph I.10.a. of General Order 103. Two copies of this map should be submitted to the Commission within 180 days of the effective date of this order.
- e. GWS should be ordered to maintain water production records as required by Paragraph II.4.b. of General Order 103.

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 Grove Water Service 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 2. 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. Grove Water Service shall prepare and keep current a system map as required by Paragraph I.10.a. of General Order 103. Two copies of this map shall be submitted to the Commission within 180 days of the effective date of this order.

4. Grove Water Service shall maintain water production records as required by Paragraph II.4.b. of General Order 103.

5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on November 25, 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

GROVE WATER SERVICE

SUMMARY OF EARNINGS

Item	Estimated Year 1988				
	Utility Estimated		Branch Estimated		Adopted
	Present	Requested	Present	Requested	Rates
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenue</u>					
Flat	\$ 9,486	\$ 16,126	\$ 9,486	\$ 16,126	\$ 13,130
Metered	9,974	10,776	10,390	11,200	10,590
Total Revenues	\$ 19,460	\$ 26,902	\$ 19,876	\$ 27,326	\$ 23,720
<u>Operating Expenses</u>					
Power	3,400	3,400	3,760	3,760	3,760
Employee Labor	1,800	1,800	1,800	1,800	1,800
Materials	200	200	200	200	200
Contract Work	4,000	4,000	2,720	2,720	2,720
Transportation	1,000	1,000	900	900	900
Office Salary	2,400	2,400	2,400	2,400	2,400
Mgmt. Salary	1,200	1,200	1,200	1,200	1,200
Uncoll. Accounts	300	300	140	140	140
Off/Stor Rent	0	0	0	0	0
Office Supply	2,250	2,250	2,060	2,060	2,060
Prof. Services	900	900	500	500	500
Insurance	1,000	1,000	680	680	680
Gen. Expenses	300	300	300	300	300
Reg. Commission Exp.	280	280	0	0	0
Total Expenses	19,030	19,030	16,660	16,660	16,660
<u>Deductions</u>					
Depreciation	1,800	1,800	1,800	1,800	1,800
Property Tax	500	500	80	80	80
Payroll Taxes	660	660	660	660	660
Franchise Tax	540	540	400	550	480
Income Taxes	1,000	1,000	200	1,760	940
Total Deductions	4,500	4,500	3,140	4,850	3,960
Total Exp. & Ded.	23,530	23,530	19,800	21,510	20,620
Net Revenue	(4,070)	3,372	76	5,816	3,100
<u>Rate Base</u>					
Average Plant	60,500	60,500	60,530	60,530	60,530
Average Depr. Res.	33,500	33,500	32,920	32,920	32,920
Net Plant	27,000	27,000	27,610	27,610	27,610
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	4,000	4,000	1,910	1,910	1,910
Mat'l. & Suppl.	0	0	0	0	0
Rate Base	31,000	31,000	29,520	29,520	29,520
Rate of Return (%)	Loss	10.88	0.26	19.70	10.50

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

The subdivision known as Clampett Tract located on the westerly side of the Sacramento River approximately 1/4 mile north of the drawbridge at Walnut Grove, Sacramento County.

RATES

Quantity Rates:	Per Meter Per Month
For all water, per 100 cu.ft.....	\$ 0.50 (I)
Monthly Service Charge:	
For 5/8 x 3/4-inch meter.....	\$ 3.10
For 3/4-inch meter.....	4.00
For 1-inch meter.....	5.00

The Service Charge applies to all metered service connections. To it is added the charge for water used during the month at quantity rates. (T)

APPENDIX B
 Schedule No. 2
FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

The subdivision known as Clampett Tract located on the westerly side of the Sacramento River approximately 1/4 mile north of the drawbridge at Walnut Grove, Sacramento County.

RATES

	Per 5/8 x 3/4-inch Service Connection <u>Per Month</u>	
1. Residential Service. For each single family residence including a lot having an area of:		
6,000 sq.ft., or less.....	\$ 9.60	(I) ----- (I)
6,001 to 7,500 sq.ft.....	11.80	
Over 7,500 sq.ft., for each additional 100 sq.ft., or fraction thereof.....	0.10	
For each additional residential unit on the same lot and served through the same service connection.....	6.25	
2. Commercial, other than Residential Service. For each business establishment using water for toilet facilities only.....	 7.60	

SPECIAL CONDITIONS

1. All service not covered by the above classifications will be furnished only on a metered basis.

2. Meters may be installed at option of utility for above classification in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

APPENDIX C
Page 1

COMPARISON OF RATES

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

METERED SERVICE

	<u>Per Meter Per Month</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
<u>Service Charge :</u>			
For 5/8 x 3/4-inch meter.....	\$ 3.10	\$ 3.10	0
For 3/4-inch meter.....	4.00	4.00	0
For 1-inch meter.....	5.00	5.00	0
<u>Quantity Rates :</u>			
First 300 cu.ft., per 100 cu.ft.....	0.40	-	-
Over 300 cu.ft., per 100 cu.ft.....	0.50	-	-
All use, per 100 cu.ft.,.....	-	0.50	-
<u>FLAT RATES</u>			

1. Residential Service

For each single family residence including a lot having an area of:

6,000 sq.ft., or less.....	\$ 6.95	\$ 9.60	38.1
6,001 to 7,500 sq.ft.,.....	8.55	11.80	38.0
Over 7,500 sq.ft., for each additional 100 sq.ft., or fraction thereof.....	0.07	0.10	42.9

For each additional residential unit on the same lot and served through the same service connection.....

4.45	6.25	40.4
------	------	------

2. Commercial, other than Residential Service

For each business establishment using water for toilet facilities only.....

5.40	7.60	40.7
------	------	------

APPENDIX C
Page 2

COMPARISON OF RATES

A comparison of monthly customer bills at present and Branch recommended rates 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	\$ 3.10	\$ 3.10	\$ 0	0.00
3	4.30	4.60	0.30	6.98
10	7.80	8.10	0.30	3.85
20	12.80	13.10	0.30	2.34
24 (Avg.)	14.80	15.10	0.30	2.03
30	17.80	18.10	0.30	1.69
50	27.80	28.10	0.30	1.08
100	52.80	53.10	0.30	0.57

APPENDIX D
Page 1

ADOPTED QUANTITIES
(1988 Test Year)

Name of Company: Grove Water Service

1987 Test Year

Net-to-Gross Multiplier:	N/A
Federal Tax Rate:	15.0%
State Tax Rate:	9.6%
County Franchise Tax:	2.0%
Uncollectible Rate:	0.5%

Expenses

1. Purchased Power (Electric)	
Pacific Gas & Electric Company	
Total Cost (\$)	\$ 3,760
kwh/Used	37,240
Effective Schedule Date	7/1/87
\$/kwh Used	0.10096
Schedule	A1-P
2. Purchased Water: None	
3. Pump Tax-Replenishment Tax: None	
4. Payroll and Employee Benefits:	
Operation and Maintenance Payroll	\$ 1,800
Administrative & General Salaries	3,600
Total	\$ 5,400
Payroll Taxes	\$ 660
5. Ad Valorem Taxes	
Tax Rate	\$ 80
Assessed Value	1.096%
	\$ 6,897

Service Connections

<u>Flat Rate (All 5/8 x 3/4-inch)</u>	
6,000 sq.ft. or less	5
6,001 - 7,500 sq.ft.	64
Over 7,500 sq.ft. (1027 - hundred sq.ft. units)	16
	<u>85</u>

Meter Size

5/8 x 3/4-inch	54
3/4-inch	0
1-inch	4
Total	<u>143</u>

<u>Volume of Water</u> to design rates (Ccf)	0 - 3	2,090
	> 3	14,610
	Total	<u>16,700</u>

APPENDIX D
Page 2

ADOPTED TAX CALCULATIONS¹

:Line:		: At 1988 Rates :	
:No. :	Item	: State Tax :	FIT :
1.	Operating Revenues	\$23,720	\$23,720
2.	O&M Expenses	9,380	9,380
3.	A&G Expenses	7,280	7,280
4.	Tax Other Than Income	1,220	1,220
5.	Depreciation	1,800	1,800
6.	State Tax @ 9.6%	-	390
7.	Subtotal	19,680	20,070
8.	Net Taxable Income for State Tax	4,040	
9.	State Tax @ 9.6%	390	
10.	Total State Tax	390	
11.	Net Taxable Income for FIT		3,650
12.	Federal Income Tax @ 15%		550
13.	Total FIT		550
14.	Total Income Taxes		940

1/ Corporation

APPENDIX E

TO CUSTOMERS WHO HAVE REQUESTED INFORMATION REGARDING GROVE WATER SERVICE'S
REQUEST FOR A 38.2% RATE INCREASE.

Dear Customer:

On July 20, 1987, Grove Water Service 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 38.2%. After considering all factors presented, the Commission has authorized an increase in gross annual revenues of \$3,844 or 19.3%. For a typical flat rate customer, this will mean an increase in the monthly bill from \$8.55 to \$11.80. For a metered rate customer using the system average of 24 hundred cubic feet per month, the increase would be from \$14.80 to \$15.10. A greater portion of the increase was put on flat rate customers to bring the flat rates more closely in line with metered rates.

Following Grove'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 Grove's estimates and recommended that the Commission authorize an increase. The major reason for the increase is to cover increased operating expenses.

A public meeting was held on July 29, 1987 at which customers raised specific questions. In response, Grove stated that it is in the process of adding new and larger mains to its water system and this will aid in providing better operating pressures. Grove's water supply has been found safe and potable by the Sacramento Department of Health Services. Grove recently hired a representative in the service area to handle emergency calls.

The Commission is aware that the percentage increase granted is large; however, the utility has operated at a loss in the last few years. The last increase was granted in 1981 and is no longer sufficient to provide a reasonable return on Grove's investment at today's costs.

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 Robert Penny of our staff at (415) 557-1972.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch