

Original W-4

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3382  
February 10, 1988

R E S O L U T I O N

(Res. W-3382) LEWISTON WATER WORKS (LWW), ORDER AUTHORIZING  
A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE  
OF \$4,500 OR 200% IN 1988 AND \$2,250 OR 33.3% IN 1989.

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LWW, by draft advice letter accepted by the Water Utilities Branch (Branch) on July 24, 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 \$2,250 or 100% in 1987, \$2,250 or 50% in 1988, and \$2,250 or 33.3% in 1989. LWW estimates that although gross revenues of \$2,250 at present rates would increase to \$4,500 at proposed rates in test year 1987, from \$4,500 to \$6,750 in 1988, and from \$6,750 to \$9,000 in 1989 it would continue to operate at a loss (see later discussion on this). LWW serves 25 customers adjacent to the community of Lewiston, Trinity County. The Branch is concurrently processing an advice letter general rate increase for Lewiston Sewer System, a sewer utility under common ownership and operation.

The present rates have been in effect since 1972, but were formally filed with the Commission on June 19, 1981 after LWW was declared a public utility in Decision (D.) 85492, dated March 2, 1976.

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

The differences in estimates for expenses are in purchased power, payroll, materials, contract work, vehicle and depreciation expenses.

The Branch's expense estimate for purchased power is lower than LWW's. LWW based its power use estimate on the existing oversized 40 horsepower pump, which has the excessive power consumption of 15 kWh/Ccf (kilowatt hours of power per one hundred cubic feet of water pumped). The Branch's estimate is based on replacing this pump with a smaller one that uses only about 7 kWh/Ccf. An allowance of \$650 each year has been included in the Branch's estimate for the changeover costs, for a total of \$2,350 as compared to LWW's \$3,720. The Branch also used later power rates effective April 1, 1987.

The Branch estimate of \$1,800 for payroll is significantly lower than LWW's estimate of \$4,500. It is based on the Branch's estimate of the time required by a manager-operator to periodically inspect the system facilities, make minor repairs, make operational adjustments and tests, service customer accounts and take care of other miscellaneous details. LWW made its estimate in a similar

manner but included additional amounts for small tools, vehicle expenses, and owner supervision. The Branch has allowed for small tools and vehicle expenses in its materials and vehicle expense estimates respectively, which are discussed later. The Branch believes this company's supervisory demands are too small to include payroll consideration for other than an operator.

The Branch's estimate for materials of \$1,700 is slightly higher than LWW's estimate of \$1,600. This reflects the Branch's addition of \$100 for small tools which LWW had inappropriately included with its payroll estimate.

The Branch's expense estimate of \$1,580 for contract work is higher than LWW's \$1,330. Both estimates were based on recorded amounts except that the Branch's calculations included an adjustment for inflation.

LWW did not include a separate amount for vehicle expense because the system operator uses his personal vehicle and is reimbursed for it as part of his pay. The Branch estimated the vehicle expense to be \$300 and separated it from payroll.

The Branch's estimate for depreciation expense is higher than LWW's because the Branch corrected errors in historical plant and depreciation reserve records and included \$41,000 for a new tank which was added to the system in 1987. The Branch also recalculated the depreciation accrual rate in accordance with the Commission's Standard Practice U-4, "Determination of Straight-Line Remaining Life Depreciation Accruals", to reflect these corrections and the fact that certain parts of the system are in poor condition and approaching the end of their usefulness. LWW used the old 2.9% depreciation accrual rate while the Branch used the new rate of 3.84%.

The Branch recommends that LWW be ordered to use the new 3.84% composite depreciation rate until a future depreciation study reviewed by the Branch indicates a revision is warranted.

The difference in rate base is due to the Branch's use of adjusted plant and depreciation reserve values as indicated above and a \$60,000 limit on combined rate base for LWW and its affiliated sewage utility. The present owners purchased both the sewer and water systems as part of a larger real property transaction in 1986. In authorizing the transfer, D.86-05-075 found that:

"Sellers and buyers have stipulated as part of the [transfer] application that because there are only 26 customers on the systems, the Commission has not issued a certificate of public convenience and necessity for the two systems and has restructured their service areas, the market value of the systems is no more than \$60,000. Buyers have stipulated that they will not claim more than \$60,000 as the total rate base for the systems for ratemaking purposes."

D.86-05-075 went on to require the buyers to make a compliance filing showing how the \$60,000 rate base was to be allocated between the water and sewer systems.

The Branch has shown this limit as a rate base cap adjustment ("cap adjust") in the rate base portion of Appendix A, Summary of Earnings.

Despite the fact that its showing clearly demonstrates that it will continue to operate at a loss at its proposed rates, LWW has chosen to limit its request to a \$7.50 monthly increase per customer in each test year. According to the owners' consultant, LWW's owners are willing to continue to operate at a loss because their utility businesses are incidental to their other business interests. Since this will be LWW's first rate increase since it was declared a public utility in 1976, the Branch made complete estimates of rate base and expenses to establish a correct ratemaking basis for the future.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in LWW's annual reports, the Branch recommends that LWW 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, \$95,165 as of December 31, 1986; and depreciation reserve, \$62,333 as of December 31, 1986.

The Accounting and Financial Branch of the Commission Advisory and Compliance Division currently recommends a rate of return of 10.25% to 10.75% for small water and sewer utilities with 100% equity financing. The authorized rate of return in the last 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 such as purchased power. The Branch therefore recommends that the Commission find a rate of return on rate base not exceeding 10.50% to be reasonable for the purpose of future earnings tests for LWW.

LWW was informed of the Branch's differing view of expenses, depreciation, 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 on July 30, 1987. There were no written responses to this notice.

The Branch conducted a public meeting in Weaverville on August 24, 1987 to receive public input and answer customers' questions. One couple attended and requested that meters be installed to get neighbors to stop wasting water which would result in operating cost reductions. The Branch representative explained that the average water use was already very low and that the cost of the meters would outweigh any savings in pumping cost. The couple acknowledged that service was good.

A field investigation of LWW was made on August 24 and 25, 1987. Visible portions of the water system were inspected, pressures checked, the operator interviewed and methods of operation reviewed. The investigation indicates that service is good and LWW's system is in compliance with the requirements of the Commission's General Order 103, "Rules Governing Water Service". There are no outstanding Commission orders requiring system improvements.

According to the Trinity County Health Department the quality of LWW's water meets state standards. The water is obtained from the Trinity River and pumped to elevated storage tanks where it is filtered and chlorinated. The supply for present and future needs is ample. A water conservation program is not needed.

LWW is a flat rate system. A comparison of present and recommended rates is shown in Appendix C. At the Branch's recommended rates for 1988 the monthly

customer bill would go from its current \$7.50 to \$22.50, an increase of 200%. This large percentage increase is due to the fact that the \$15.00 rate proposed by LWW to go into effect during 1987 was not implemented. The Commission's "Caps" policy for water utilities adopted February 4, 1982 limits the amount of increase in any particular year to 100% except in situations where the utility is operating at a loss. In such circumstances the increase, if exceeding 100%, is limited to that necessary to cover operating expenses. In LWW's case, the Branch's analysis indicates that it will operate at a loss in all three test years at the requested rates. Although large, the Branch considers the rate increases to be justified.

The Branch recommends that the Commission authorize an increase of \$4,500 or 200% for 1988 which would increase estimated annual operating revenue from \$2,250 at present rates to \$6,750 at the proposed rates, and \$2,250 or 33.3% additional for 1989 which would increase estimated annual operating revenue to \$9,000 for that year. This will result in LWW being granted the full increase it requested.

#### FINDINGS:

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates requested by Lewiston Water Works are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendation are reasonable and should be adopted.
4. LWW should use a 3.84% composite depreciation rate until a future depreciation study reviewed by the Branch indicates that a revision is warranted.
5. LWW should 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, \$95,165 as of December 31, 1986; and depreciation reserve, \$62,333 as of December 31, 1986.

#### IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Lewiston Water Works to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendices A and B respectively, and concurrently to cancel the presently effective rate schedule. Such filing shall comply with General Order 96-A. The effective date of the revised rate schedule shall be the date of filing.
2. Lewiston Water Works shall use a 3.84% composite depreciation rate until a future depreciation study reviewed by the Water Utilities Branch indicates that a revision is warranted.
3. Lewiston Water Works 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. For the purpose of earnings tests in any of Lewiston Water Works' future offset rate increase requests, a rate of return on rate base not exceeding 10.50% shall be considered reasonable.

5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 10, 1988. The following Commissioners approved it:

STANLEY W. HULETT  
President

DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
Commissioners

  
VICTOR R. WEISSER  
Executive Director

APPENDIX A  
LEWISTON WATER WORKS  
SUMMARY OF EARNINGS

	Utility Estimated				Branch Estimated & Adopted:		
	Present Rates 1987	Proposed Rates Test Years			Test Years		
		1987	1987	1988	1989	1987	1988
<b>OPERATING REVENUES</b>							
Flat Rate	\$ 2,250	\$ 4,500	\$ 6,750	\$ 9,000	\$ 4,500	\$ 6,750	\$ 9,000
<b>OPERATING EXPENSES</b>							
Purchased Power	3,720	3,720	3,720	3,720	2,350	2,350	2,350
Payroll	4,500	4,500	4,500	4,500	1,800	1,800	1,800
Materials	1,600	1,600	1,600	1,600	1,700	1,700	1,700
Contract Work	1,330	1,330	1,330	1,330	1,580	1,580	1,580
Office Supplies	250	250	250	250	250	250	250
Accounting & Legal	300	300	300	300	300	300	300
General Expense	375	375	375	375	375	375	375
Vehicle Expense	0	0	0	0	300	300	300
Rent	300	300	300	300	300	300	300
Subtotal	12,375	12,375	12,375	12,375	8,955	8,955	8,955
Deprec. Expense	2,760	2,760	2,995	3,025	5,030	5,030	5,030
Property Taxes	0	0	0	0	0	0	0
Payroll Taxes	0	0	0	0	0	0	0
Income Taxes	0	0	0	0	0	0	0
Subtotal	2,760	2,760	2,995	3,025	5,030	5,030	5,030
Total Deductions	15,135	15,135	15,370	15,400	13,985	13,985	13,985
NET REVENUE	(12,885)	(10,635)	( 8,620)	( 6,400)	( 9,485)	( 7,235)	( 4,985)
<b>RATE BASE</b>							
Avg Plt in Serv.	51,065	51,065	60,200	61,300	113,795	132,425	132,425
Avg Depr. Res.	19,866	19,866	19,314	22,540	64,847	69,875	74,902
Net Plant	31,199	31,199	40,886	38,760	48,948	62,550	57,523
Less: Advances	0	0	0	0	0	0	0
Contribns	0	0	0	0	0	0	0
Plus: Wrkg Cash	0	0	0	0	0	0	0
M & S	0	0	0	0	0	0	0
Less: Cap Adjust. <sup>1</sup>	0	0	0	0	2,349	12,586	7,539
RATE BASE	31,199	31,199	40,886	38,760	46,599	49,964	49,984
RATE OF RETURN	Loss	Loss	Loss	Loss	Loss	Loss	Loss
<sup>1/</sup> Lewiston Sewer System Rate Base					13,401	10,036	10,016
Total Rate Base per D.86-05-075					60,000	60,000	60,000

APPENDIX B

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential service.

TERRITORY

In the town of Lewiston and vicinity, Trinity County.

RATE

	<u>Per Month</u>		
		<u>Effective</u>	(C)
		<u>1/1/89</u>	(C)
For each connection, .....	\$22.50	\$30.00	(I)

SPECIAL CONDITION

The above flat rates apply to service connections not larger than one inch in diameter.

APPENDIX C  
COMPARISON OF RATES

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

	<u>Present Rates</u>	<u>Per Month</u>	
		<u>Recommended Rates</u>	<u>Percent Increase</u>
For each connection.....	\$ 7.50	<u>Effective 1988</u>	200
		<u>Effective 1989</u>	33.3
		\$30.00	



APPENDIX D

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ADOPTED QUANTITIES  
(1987, 1988, and 1989 Test Years)

Name of Company: Lewiston Water Works

Net-to-Gross Multiplier:	N/A
Federal Tax Rates:	15%
State Tax Rate:	9.3%
Local Franchise Tax Rate:	0%
Business License:	0.0
Uncollectible Rates:	0%

Expenses Test Year 1986

1. Purchased Power (Electric)  
Total Sales-Cof 2,667

Pacific Gas and Electric Company

Total Cost (\$)	\$1,700
Rate Schedule	A-1
Eff. Sch. Date	4/1/87
kWh used	18,669
\$/kWh used	0.10006 (summer)
	0.08289 (winter)
	.091 (avg)

2. Purchased Water:	None
3. Pump Tax-Replenishment Tax:	None
4. Payroll:	\$1,800
5. Payroll Taxes:	None
6. Ad Valorem Taxes:	None

Service Connections

Flat Rate ..... 25

APPENDIX D  
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ADOPTED TAX CALCULATIONS

Line No.	Item	1987	
		Adopted Rates	
		<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$ 4,500	\$ 4,500
2.	O & M Expenses	8,955	8,955
3.	Taxes Other Than Income	0	0
4.	Tax Depreciation	5,030	5,030
5.	State Income Tax	-	0
6.	Sub-total Deduction	13,985	13,985
7.	State Taxable Income	0	-
8.	State Income Tax	0	-
9.	Federal Taxable Income	-	0
10.	Federal Income Tax	-	0
11.	Total Income Tax		None

Line No.	Item	1988	
		Adopted Rates	
		<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$ 6,750	\$ 6,750
2.	O & M Expenses	8,955	8,955
3.	Taxes Other Than Income	0	0
4.	Tax Depreciation	5,030	5,030
5.	State Income Tax	-	0
6.	Sub-total Deduction	13,985	13,985
7.	State Taxable Income	0	-
8.	State Income Tax	0	-
9.	Federal Taxable Income	-	0
10.	Federal Income Tax	-	0
11.	Total Income Tax		None

## APPENDIX D

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ADOPTED TAX CALCULATIONS

Line No.	Item	1989 Adopted Rates	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$ 9,000	\$ 9,000
2.	O & M Expenses	8,955	8,955
3.	Taxes Other Than Income	0	0
4.	Tax Depreciation	5,030	5,030
5.	State Income Tax	<u>-</u>	<u>0</u>
6.	Sub-total Deduction	13,985	13,985
7.	State Taxable Income	0	-
8.	State Income Tax	0	-
9.	Federal Taxable Income	-	0
10.	Federal Income Tax	-	0
11.	Total Income Tax		None